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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-1744

JULIUS E. FOSTER,

Petitioner,

v.

AMERICAN MACHINE & FOUNDRY CO., *et al.*,

Respondents.

APPENDIX TO MOTION FOR LEAVE TO FILE AND PETITION FOR REHEARING

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Writings and
Discoveries;

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A discussion on the compulsory licensing of patents in the United States by:

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for

THE PATENT BAR

by

THE PATENT BAR

A forum for free exchange of views and ideas for the Patent, Trademark and Copyright practitioner.

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EDITORIAL

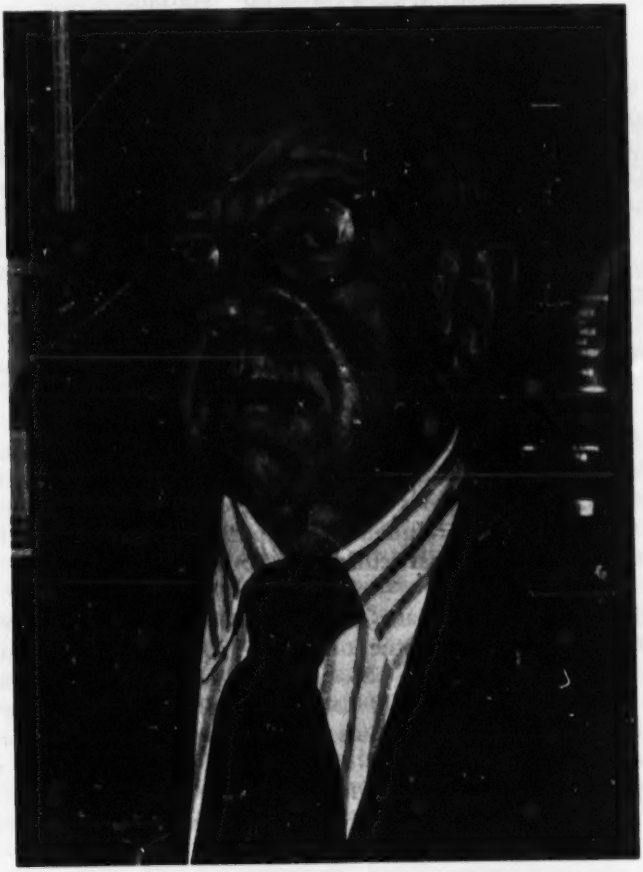
Our summer issue of the JOURNAL is devoted to compulsory licensing. This topic has been much discussed by the patent bar, primarily because several proposed Congressional bills have contained such provisions.

When we first decided on this issue, *Foster II*, which a consensus of authors considers a most significant departure from the present law in this area, had not as yet been handed down. Now with this new decision, the treatment of this subject should be of timely interest.

Our topic this time is not treated in the typical *pro* and *con* fashion, because we found it substantially impossible to find any spokesmen for the completely *pro* compulsory licensing approach. Thus, we have the limited *pro* approach being taken by Messrs. Goldsmith and Morton, the former suggesting important bases for compulsory licensing both in history and foreign practice, as well as interpreting the constitutional grant as requiring compulsory licensing when non-use is apparent. The latter finds his justification for proceeding with a specific legislative proposal in the precedent of the Foster II case. The exceedingly wide-ranging papers of Messrs. Whitaker and Pravel set down what might properly be described as the majority view of most patent practitioners.

As before, we invite your thoughts and suggestions for the JOURNAL.

S. DELVALLE GOLDSMITH



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THE CASE FOR "RESTRICTED" COMPULSORY LICENSING

BY S. DELVALLE GOLDSMITH

Compulsory licensing for "non-working" of a patented invention is a fact of law, but not a fact of life, in most other countries. A fact of law because there are compulsory licensing provisions in the patent laws of nearly every important country except in the United States[1]. Not a fact of life because there are few grants of compulsory licenses in countries having these provisions. This does not mean that the compulsory license laws are not working but that, with such laws in the background, the parties that might be subject to their control would usually rather deal with each other on a voluntary basis[2].

The reference to few compulsory license grants applies to compulsory licenses for non-working and not to compulsory licenses obtainable in many countries for food and drug inventions whether they are worked or not. Numerous compulsory licenses of the latter type have been granted, particularly in Canada[3].

The above points up a basic difference between the two types of compulsory licensing: on the one hand compulsory licensing as advocated by some (usually those who do not believe in a patent system at all) under which all patents, or all patents in a particular field, are subject to compulsory licensing whether or not the patented invention is worked; on the other hand, restricted compulsory licensing of the type where a license will be granted only where an invention for which there is a demand is not "worked"

1. Vojacek, A Survey of the Principal National Patent Systems, pages 63-65 (1936). See for example Section 37 of the British Patent Acts 1949-1961 which provides that:
"At any time after the expiration of three years from the date of the sealing of a patent, any person interested may apply to the comptroller upon any one or more of the grounds specified in the next following subsection for a license . . ." One of the specified grounds is:
"that the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonable practicable."

2. "The total number of applications for leave to exploit an invention against the wish of the patentee . . . have been very few. Indeed a court may be inclined to view such an application (for a compulsory license) with the suspicion that the applicant is endeavoring to secure some unreasonable commercial advantage . . . which he cannot obtain by straight-forward negotiation". See Terrell and Shelley on Patents by K. E. Shelley, Q.C. (Great Britain)—10th edition, page 249 (1961).

3. Thus, in the case of *Sterilab Corp. Ltd. v. Chas. Pfizer & Co. Inc.* 62 Canadian Patent Reporter 94 (1970), an Editorial Note of the reporter says "As a practical matter, the license (for a pharmaceutical patent) will be granted almost as a matter of course."

by the patentee or allowed by him to be worked by others, i.e. prevented from reaching the market place.

The first type of compulsory licensing, as exemplified by the aforementioned food and drug licenses, if extended to all areas of technology, would probably mean the end of patents as such and possibly also serious diminution of research and development. What incentive would there be to spend money on R & D when, after an invention was successfully commercialized, a competitor could get a license to use it without spending money for research, development, pilot plants and consumer-education? In fact, with such a regime of general compulsory licensing, not only would competitors not engage in research, but there would not be any research in the first place for them to take advantage of[4].

The second type of compulsory licensing (i.e. for non-working) is quite different. As long as the invention is put to use by the patentee or a licensee, no compulsory licenses would be granted. On the other hand, if the patentee did not use the invention himself and refused to allow a third party desirous of using it to do so, i.e. where there was so-called "suppression" of an invention, the patent in question would be open to compulsory licensing—with royalty payment to the patentee if a license is granted and with an opportunity for the patentee to prevent or postpone grant of a compulsory license, if he could justify non-use of the invention.

The main objection that seems to have been raised to compulsory licensing for non-working is a rather weak one, namely that there is in fact no "suppression" of patented inventions. This may be true because, in our competitive economy, an individual or company having a meritorious invention with public appeal is usually anxious to put it into practice and reap the rewards of commercial success. But the short answer to this objection is that, with compulsory licensing for non-working, compulsory licenses will not be granted if there is in fact no suppression. So anyone who doesn't like compulsory licensing should not be dissatisfied with compulsory licensing legislation of this type.

4. Former Patent Commissioner Robert Gottschalk, thought by many to oppose all forms of compulsory licensing, expressed himself before the ABA Patent Section in San Francisco in August 1972 as being opposed to types of compulsory licensing "which would dilute the incentives . . . provided by the patent system". He pointed out that "a compulsion to invent around would not exist with a *broad* system of compulsory licensing" (emphasis aded). It is unfortunate that, in the same speech Commissioner Gottschalk also said "compulsory licensing . . . precludes the patentee's option to practice his invention in an exclusive basis." Of course, this statement is correct only if the word "bread" is understood before "compulsory licensing". See the 1972 Summary of Proceedings of the Section of Patent, Trademark and Copyright Law—American Bar Association, p. 168 et seq.

To be fair we should also consider the other objections to compulsory licensing, especially as they may be somewhat more logical than the objection discussed above.

The first of these other objections is that any sort of compulsory licensing reduces the value of a patent and consequently the incentive to use a patent system. Of course this is true. Any one of a number of factors will reduce the value of a patent, for example setting the term at 10 instead of 17 years, providing more grounds for attack on patent validity, or restricting licensing and other ways of making money from a patent. Reduction in value of a patent (and consequent reduction of incentive to obtain patents) is a matter of degree. In each instance, the disadvantage of reduction in value of the patent must be weighed against any advantages obtained by the restrictive factor involved.

Another objection raised against compulsory licensing is that it would be difficult for the Courts (or an administrative body) to decide if there is or is not non-working of a patented invention such as to justify the grant of a compulsory license. This is undoubtedly true, but certainly no more difficult than other questions that have to be decided by our Courts such as non-obviousness in patent cases generally, application of the "rule of reason" in anti-trust cases, and guilt or innocence in criminal cases. If there are advantages to compulsory licensing, we should not shut ourselves out from them merely because difficult issues may have to be decided[5].

The main advantage of compulsory licensing is to bring an invention to the market place which would not otherwise get there. A fringe benefit of compulsory licensing is that it would probably improve the public image of the patent system.

Patents (in the eyes of the general public and even the judiciary) start out with several strikes against them. In the first place, they are not understood. As former Justice Fortas states:

"Many federal appellate judges—perhaps most of them—ap-

5. Three of the very few British cases on compulsory licensing for non-working are the following: *Kamborian's Patent*, [1961] Reports of Patent, Design and Trademark Cases (hereinafter referred to as R.P.C.) 403—Compulsory license refused although the applicant for the license objected to the terms of an offered voluntary license as unreasonable and contended that a demand for the patented article had not been met by the patentee. *Fette's Patent*, 1961 R.P.C. 396—6½ years after the grant of the patent, a compulsory license was granted at a 10% royalty rate although the patentee contended that the elapsed time was insufficient for exploitation.
Penn Engineering and Manufacturing Corp's Patent, 1973 R.P.C. 233—Compulsory licence at a 5% royalty rate granted where a demand for the product in Great Britain was being supplied solely by importation.

proach patents with the kind of suspicion and hostility that a city-bred boy feels when he must traverse a jungle full of snakes."[6]

In the second place, as they are monopolies, they are looked upon as anti-competitive and consequently bad. Here again there is a lack of understanding. Patents—although they are monopolies—are basically competitive rather than anti-competitive. They are competitive because of their very nature as monopolies: competitors are stimulated to "invent around" the patent monopoly, i.e. to create equal or better products which will not infringe the patent.

Opponents contend that compulsory licensing would reduce this competitive effect of patents. However, this would be true, only if the patentee did not use or permit others to use his invention. If, as opponents of compulsory licensing say, there is no such suppression, competitors could not obtain a compulsory license and would still have the incentive to "invent around" the patent. If a patented invention is suppressed, the grant might presumably be held invalid[7] in the absence of the less severe penalty of compulsory licensing provided by a restricted compulsory licensing law.[7]

The third difficulty for patents is the patent-antitrust "interface" which seems to set the patent—mistakenly looked upon as an anti-consumer monopoly—against the consumer-protective features of antitrust law. Here again there is confusion. To the extent that the exercise of patent rights is coextensive with a properly granted patent monopoly (i.e. for a new and non-obvious fully disclosed invention), there is no conflict with antitrust law. On the other hand, where patent rights are asserted on the basis of an invalid patent or extend beyond the boundaries of the patent right (for example to control unpatented material), there is a conflict with antitrust law. In such a case the abuse of the patent law (not the patent law itself) will be struck down by the Courts.

All this may seem to lead away from a discussion of compulsory licensing itself, but there is the underlying concept that, if more popular support for patents can be secured by providing for compulsory licensing, this may lessen attacks on the patent system itself. In this connection Justice Fortas writes:

"We must recognize the depth of the attack (on the patent system) and of the public attitude from which it emerges. It is a

6. A. Fortas, The Patent System in Distress 53 JPOS 810, (1971).

7. In *Blount Manufacturing Co. v. Yale & Towne Manufacturing Co.*, 166 F 555. D.Mass. 1909. the court stated: "An attempt to make profit out of letters patent by suppressing the invention covered thereby is outside the patent grant . . ."

dangerous period, for those who believe they are attacking the abuses of the system may inadvertently damage the system itself."[8]

In final support of compulsory licensing for non-working, the question can be posed as to whether a patent law without such a provision (supplied judicially if not legislatively) complies with the Constitutional purpose "to promote the progress of science and useful arts". Query: are science and the useful arts really advanced if an invention is patented, not used by the patentee, and not allowed by the patentee to be used by others, even if there is a need for the patented product? With a situation such as this, science and the useful arts would seemingly be stagnated rather than advanced. where he states:

"It is . . . difficult to see how suppression of patents can be reconciled with the provision of the statute which authorizes a grant of the 'exclusive right to make, use and vend the invention or discovery' . . . How may the words "to make, use, and vend" be read to mean "not to make, not to use, and not to vend?"

Another way in which science and the arts may be stagnated rather than advanced by a "suppressed" patent is where a substantial improvement of a patented invention is made and cannot be brought to the market place without the permission of the patentee, which permission is refused. Many foreign countries provide for this type of compulsory licensing as well as compulsory licensing for non-working *per se*[10].

In addition to the constitutional purpose of promoting progress of science and useful arts, which must of course be carried out by any constitutionally proper patent law, there is on the other hand the constitutional requirement of securing to the inventors the exclusive right to their discoveries. Does this mean an exclusive right to "own" their discoveries? It would seem not. They already own them exclusively and can keep them secret if they desire. It must mean the *exclusive* right to *use* their discoveries, i.e. to prevent others from using their discoveries wtihout their permission[11]. In other words, the purpose of the patent provision in the Constitution is not just to reward the inventor, but to promote the progress of

8. *Supra*, note 6.

9. 324 U.S. 370, 64 USPJ 525 (1945).

10. See for instance Article 46 of the Swedish Patent law reading in part as follows: "The owner of a patent for an invention, the exploitation of which is dependent on a patent owned by another person, may obtain a compulsory license to use the invention protected thereby, provided that this is reasonable in view of the importance of the first-mentioned invention or for other special reasons prevailing."

11. *Supra*, note 9.

science and useful arts for the general benefit of the country's economy. This can only be accomplished by use rather than suppression of patented inventions. And this is what compulsory licensing for non-working is all about.

In the recent *Kewanee* decision[12], the Supreme Court refers to the object of the Constitution's patent provision in the following terms:

> "The productive effort thereby fostered (by the patent laws) will have a positive effect on society through the *introduction of new products into the economy. . .*" (emphasis added)."

Is there any such "introduction of new products into the economy" if a patented invention is "suppressed"?

Later in the same decision, the Court refers to the fact that under the patent laws "the Federal Government is willing to pay the high price of 17 years of exclusive *use* for its (the invention's) disclosure. . ." (emphasis added). Is there any such use (properly exclusive, i.e. by the patentee or his licensees only) if a patented invention is "suppressed"?

Certainly, British patent law, and also United States patent law to a considerable extent, have a basis in the British Statute of Monopolies[13] which declared invalid all monopolies (such as were formerly granted by the King to his favorites for staple articles of trade) except monopolies for "the sole working or making of any manner of new manufacture within this realm . . . so as also they be not . . . mischievous to the State . . . or hurt of trade or generally inconvenient." Thus, at the very inception of modern patent law, the idea of "working" and "making" was involved. It was recognized that even a patent monopoly for a new manufacture might be hurtful rather than advantageous and would be void on that ground. The interface between patent laws and other laws (such as our antitrust laws) is accordingly nothing new. Where a patent serves a proper and useful purpose, it is a beneficial monopoly. Where it is hurtful or inconvenient to the economy it should be invalidated or, as a lesser penalty, subject to measures such as compulsory licensing.

A counter argument against the Constitutional argument for compulsory licensing where an invention is not used is that, even without use of the invention, the grant of a patent will promote the progress of science and useful arts, because a description of the

12. *Kawanee Oil Co. v. Bicron Corp.* ___U.S.___, 181 USPQ 673 (1974).
13. Statute of Monopolies, 21 Jac. 1, c.3, enacted May 24, 1624.

patented invention has been supplied and published and that, if the value of a patent is too much reduced by compulsory licensing, there will be more of a tendency to keep inventions secret rather than disclosing and patenting them. It may be true that some inventions could be maintained in secrecy, but this is certainly not true for many types of inventions such as consumer products. If the invention is a consumer product which the patentee intends to put on the market, secrecy will of course be impossible and compulsory licensing would have no effect as far as secrecy is concerned.

If the invention is susceptible of secrecy (e.g. a process not disclosed by the finished product) there may be a tendency to try and maintain the invention as a trade secret instead of patenting it. Secrecy, however, involves the standard dangers that the secret may leak out or that the invention may be independently invented by another. In the latter case, the first inventor would not only lose his secret, but might even be prevented from further practice of his own invention. State trade secret laws (as validated by the Kewanee decision) protect the secret only from thievery or use following confidential disclosure. They offer no protection against copying the invention after it has been publicly disclosed or against use and control of the invention by an independent inventor.

In Kewanee (*supra*) the Supreme Court held

> "In the case of trade secret law no reasonable risk of deterrence from patent application by those who can reasonably be expected to be granted patents exists.
>
> Trade secret law provides far weaker protection in many respects than the patent law."[14]

Thus, in the unlikely case of suppression, the possibility of the stronger protection under patent law (even with compulsory licensing) would have to be weighed against the weaker protection under the trade secrets law. The latter might ultimately result in no protection at all. In all these cases, the question of whether or not there is a compulsory licensing law is of no importance as regards secrecy if the inventor intends to use his invention since, with a compulsory licensing law for suppression only, no compulsory licenses would be granted.

14. Supra note 12. Also see *Sears, Roebuck & Co. v. Stiffel Company*, 376 U.S. 225, 140 USPQ 524 (1964); *Compco Corp. v. Day-Brite* 376 U.S. 234, 140 USPQ 531 (1964).

It should not be forgotten that the Courts already have compulsory licensing power and have exercised this power in antitrust situations[15]. Also, in cases of public health or welfare[16] the Courts have denied injunctive relief to a patentee who does not permit the patented invention to be used. In the very recent case of *Foster v. American Machine & Foundry Co.*[17] the Second Circuit approved a compulsory license granted apparently not for any considerations of anti-trust abuse or special public interest, but because of non-use of the invention by the patentee. The patentee has asked the Supreme Court to review the Circuit Court's decision.

So compulsory licensing (in the sense that it may destroy some of the exclusivity of the patent grant) is not such a radical departure from the principles of U.S. patent law as the opponents of compulsory licensing tend to imply. The further step from a judicial to a legislative definition of compulsory licensing would be a logical one [18] and would have the double advantage of definiteness on the one hand and probable improvement of the public and judicial image of our patent system on the other hand. Just as the "Scott Amendments" under consideration in the current proposals for general revision of our patent law would provide legislated rules as to proper and improper licensing restrictions (rather than rules imposed by the Courts on a case-by-case basis varying with the current philosophy of the judiciary), legislated rules for compulsory licensing would give the patentee and manufacturer some indication in advance of what would or would not be proper as regards non-use of a patented invention. The Courts could then return to their proper function of interpreting and applying a law made by Congress rather than making law themselves. All this would probably mean less work for patent lawyers but, on the other hand, a more stable regime for the business community and economy generally[19].

15. *Hartford-Empire Co. v. United States* 323 U.S. 386, 64 USPQ 18 (1945); 324 U.S. 570, 65 USPQ 1 (1945).

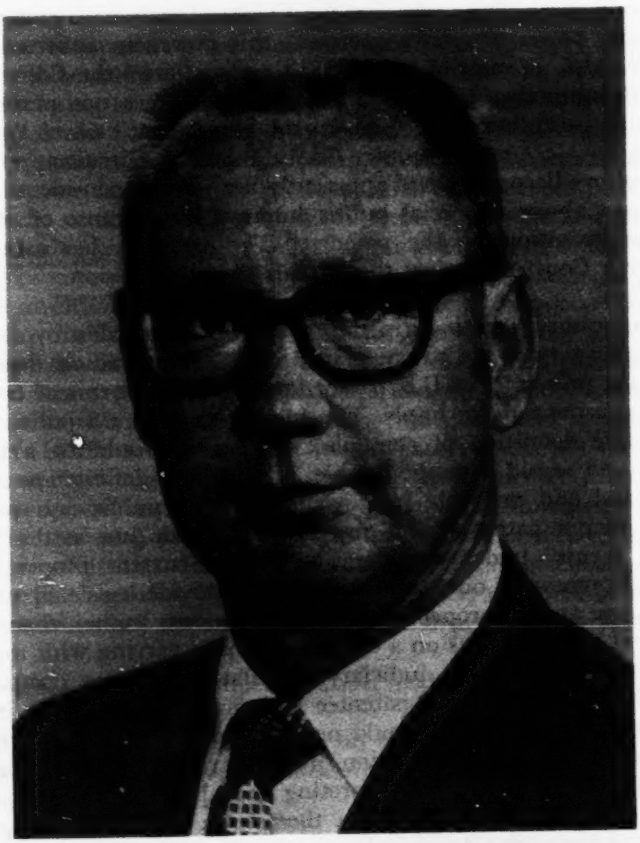
16. *The City of Milwaukee v. Activated Sludge, Inc.*, 69F. 2d 577, 21 USPQ 69 (7th Cir. 1934).

17. 492 F.2d 1317, 181 USPQ 1 (1974).

18. In *Special Equipment Co v. Coe*, see note 9, even though the majority opinion is said to stand for the position that "non-use is not misuse", it recognized the possibility of compulsory licensing legislation by indicating that compulsory use or licensing was a matter for Congress to consider.

19. The petition for certiorari in *Foster v. American Machine & Foundry Co.*, supra, note 17, although violently opposing compulsory licensing as confusing "the exclusive privilege of valid patents and the rights of patentees" seems to recognize "the right of Congress" to legislate in this field. See BNA's Patent, Trademark & Copyright Journal, No. 181, June 6, 1974, p. A-8.

LEROY WHITAKER



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COMPULSORY LICENSING — ANOTHER NAIL IN THE COFFIN

BY LEROY WHITAKER

For several years, the patent system has been under attack from various quarters. Detractors continue their efforts in the courts and in Congress to weaken the patent system. The objective appears to be to make patents more difficult to obtain, more difficult to enforce, and of less value to the patentee. We in the patent bar and those we represent must resist such efforts rather than support or instigate them, as appears to be the case with many of them.

The compulsory licensing of patents is an issue that has been widely discussed in recent years. As has been frequently pointed out, the grant of exclusivity provided by the Constitution is being slowly chipped away by judicial decision and special legislation. There are those who now advocate a general compulsory licensing statute. It is the thesis of this paper that such a statute would be a severe blow to the patent system—another nail in the coffin in which opponents of the system would like to see it buried.

Reasons Advanced In Support of Compulsory Licensing

Why is there support for a general compulsory licensing statute? Are there cogent reasons why such a statute is needed? Proponents of compulsory licensing have given several reasons for their support. Let's review these reasons.

Suppression

One of the most frequently heard arguments in support of compulsory licensing is that meritorious inventions are being kept from the public by patentees who cannot or will not supply the demand and will not license others to do so. Such arguments usually mention the 50 mile per gallon carburetor, the 100,000 mile tire, or the cancer cure. Since we've been hearing of these marvelous inventions

for many, many years, the patents covering some of them must have expired years ago. However, none of these inventions are on the market. Somehow, the patentee must have found a way to continue to suppress the invention after the expiration of his patent.

Proponents of compulsory licensing who argue suppression have

difficulty in finding instances of suppression to support their position. An invention becomes a matter of public record when the patent on it is granted. Seventeen years later anyone is free to practice the invention. As then Commissioner of Patents Gottschalk said in August, 1972, "Yet I am sure that I never heard of any single instance where a single 'suppressed' invention suddenly blossomed out when the patent on it expired."[1]

In the few cases of suppression that have occurred, the courts have had no difficulty in providing a remedy. In *Vitamin Technologists v. Wisconsin Alumni Research Foundation*,[2] the licensing practices of the patentee were found to be contrary to the public interest and the court concluded that the patent was unenforceable. In the recent case of *Foster v. American Machine & Foundry Co.*,[3] the patentee was not using the invention nor had he licensed others to do so. The court denied an injunction and, instead, granted a compulsory license to the infringer. Apparently there was no finding of a public interest and no harm to anyone other than the defendant through enforcement of the patent. It is submitted that in the absence of such a finding the decision in *Foster* is at variance with the widely accepted view that a patentee is free to use his patent or not, as he wishes.

Yet, in spite of the lack of substantial evidence of suppression of patented inventions, and in the face of the irrationality of believing that a patented invention can be forever suppressed, there are still those who argue that compulsory licensing is needed to prevent suppression. In introducing Senate Bill S.2287, Senator Hart stated that one of the goals of his bill is to provide that the patent system cannot be used to block the implementation of technology which is in the public interest.[4]

Senator Hart considers the failure to use a patented invention as "an abuse of the patent monopoly". In my opinion, the Senator's view fails to recognize the true nature of a patent grant. A patent does not confer a monopoly in the generally accepted sense. In order to obtain a patent, an inventor must have discovered something new, i.e., something not previously available. Therefore, a patent does not confer a monopoly in the generally accepted sense. In order to obtain a patent, an inventor must have discovered

1. Address by the Hon. Robert Gottschalk before the Section of Patent, Trademark and Copyright Law, American Bar Association, San Francisco, California, August 12, 1972, published in *U. S. Department of Commerce News* (Patent Office), August 12, 1972.
2. 146 F.2d 941 (9th Cir. 1945).
3. 492 F.2d 1317, 182 USPQ 1 (2nd Cir. 1974).
4. 119 *Cong. Rec.* 15021 (daily ed. July 30, 1973).

something new, i.e., something not previously available. Therefore, a patent does not deprive the public of something which was previously available, but merely allows the patentee to control the new invention for a limited time. After a patent expires, the patented invention is freely available to all. The limited period of exclusivity conferred upon the inventor by the government is consideration for his disclosing the invention to the public so that it will be available for use by anyone upon the expiration of the patent.

But perhaps we in the patent bar take a more narrow view of the meaning of "suppression" than do those outside the patent bar. Is a patented invention being suppressed if the patentee asks more for a license than the prospective licensee is willing to pay? The remarks of Mr. E. Nobles Lowe made before the American Patent Law Association in October, 1972, indicate that at least in his view such a disagreement over the terms of a patent license might be considered to be suppression.[5] Certainly, Mr. Lowe's remarks could be interpreted to support the proposition that it is suppression to ask an "exorbitant" fee for a license. But who is to determine what fee is exorbitant? It is frequently very difficult to determine what is a proper royalty.[6]

And then there is the case of the thorough researcher who obtains a number of patents directed to a number of similar, but patentably distinct devices, all of which have the same utility. He chooses to market the one device he considers to be the best and fully meets the demand for such device. Is he suppressing his "unused" patents if he refuses to grant a license to permit a third party to manufacture and sell a device to compete with one he is marketing? I submit that he is not, since he is fully satisfying the demand for a device of the type in question. He should not be required to use the fruits of his research to put his competitors in business. I suspect there are those who disagree with me on this point.

I raise the issue of the meaning of "suppression" to suggest that before we glibly agree to legislation aimed at correcting the evil of suppression, we should first determine how the term is defined. In the context of compulsory licensing, the definition should be limited to failure to use or license the invention, which failure is detrimental to the public welfare.

5. Remarks of E. Nobles Lowe, Symposium on Modified Compulsory Licensing, American Patent Law Association, Washington, D.C., October 20, 1972, published in APLA Bulletin, October-November, 1972.

6. *American Photocopy Equipment Co. v. Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966).

Price

Compulsory licensing proponents also argue that patents contribute to artificially high prices and that compulsory licensing will result in the lowering of the prices of patented products. In remarks before the Senate, Senator Nelson has expressed the opinion that patents are at least partly to blame for what he considers to be high drug prices and he has advocated compulsory licensing of such patents as the cure for the alleged evil.[7] A like view was expressed by Congressman Rosenthal in 1973 when he introduced H.R. 5737.[8]

The pricing of products is a complex issue involving many factors such as the costs of research including the costs of research failures, the costs of market development, price competition from existing products, and the need for profit. Further, innovative companies are usually quite conscious of quality, incurring the further expense of quality control, while coat-tailers frequently don't worry about it. Generally, patents play a relatively minor role in pricing policies.

It is rare for even a patented product to enjoy a true monopoly position so that the patentee can charge what the traffic will bear.[9] There is almost always another product that will do the job of the patented product, although perhaps not as well. However, even though the patented product may be superior, it must be reasonably priced in relation to the inferior product in order to gain a share of the market. Frequently, when a patented new product comes on the market, competitors will "invent around" the patent and will soon have a similar product for sale, again fostering price competition.

One might expect that a licensee who has borne no research and development costs can sell a product cheaper than the patentee who must recover all his research expenses, both successful and unsuccessful, from the product he sells. This is especially true if the licensee is required to pay only the usual "reasonable" royalty of five percent.

The argument for lower prices also loses sight of the fact that price competition is not the only form of competition. Of much more benefit to the consumer is competition in the discovery and development of new products. Is it worth killing the research goose that

7. 118 *Cong. Rec.* 16336 (daily ed. September 29, 1972); 119 *Cong. Rec.* 15063 (daily ed. July 30, 1973).

8. 119 *Cong. Rec.* 1886 (daily ed. March 19, 1973).

9. Arnold and Janicke, "Compulsory Licensing Anyone?", 55 JPOS 149 (1973); Sease, "Common Sense, Nonsense and the Compulsory License," 55 JPOS 233 (1973).

lays the golden eggs of future products in order to obtain some price reduction on presently existing products?

Proponents of compulsory licensing who use the price argument are asking that research-based companies subsidize those who are not. This is a queer way to promote innovation and progress. We shall reward those who do nothing to promote progress at the expense of those who do. If this doesn't discourage research, nothing will.

Such a result will frustrate the Constitutional mandate of promoting the progress of science and the useful arts. Historically, price control has not been a function of the patent system and it should not now be allowed to become a function of the system.[10] Such a use of the patent system is clearly contrary to the intent of the Constitution.

Foreign Practice

The third major argument for compulsory licensing is that many foreign countries already have compulsory licensing provisions in their laws. It is argued that compulsory licensing would merely bring the United States into line with other major industrial nations. This was another objective cited by Senator Hart in introducing S.2287.[11] However, the situation in the United States is different from that which brought on compulsory licensing in other countries, and we should not be stampeded into accepting compulsory licensing, because others have it.

In many countries, most notably the underdeveloped nations, compulsory licensing statutes are based on nonuse of the patent. It is understandable that such countries want to encourage the establishment of manufacturing industries with the attendant increased employment opportunities. There is no research to be discouraged by compulsory licensing laws.

But many of the great industrial countries of the world also have compulsory licensing provisions in their laws. How do such provisions operate and what have been their effects?

Under Japanese law, a license may be demanded where the working of the patented invention has not been appropriately carried out in

10. D'Silva et al., "Patent Reform and the Drug Industry", Drug & Cosm. Indus. 52 (1970).
11. *Supra*, note 4.

Japan continuously for three or more years, where a second patentee requires a license under a dominating patent in order to practice his own invention and for nonworking if "specially necessary for the public interest". If the demand for the license is unsuccessful, arbitration by the Patent Office may be had. All these compulsory licensing provisions were enacted in 1960 and since that time there have been 12 demands for arbitration. To date, no compulsory licenses have been granted in Japan. There have been no serious efforts to strengthen or repeal compulsory licensing statutes in Japan.

Since 1911, West German patent law has included compulsory licensing provisions provided it "is in the public interest". Prior to the second world war, about 25 licenses were issued, and since 1945 there have been approximately ten requests. No compulsory license has been granted in the past 25 years.

Swiss patent law has since 1928 included provisions for compulsory licensing in situations substantially similar to those applicable in Japan. Only a few compulsory licenses have been granted by the Swiss courts, and all have related to the practice of a dependent invention under a dominating patent.

The concept of compulsory licensing is found in French law in the event of nonworking in France, in order to practice an improved second invention, for national defense purposes or if the interest of public health requires it and, in the case of drug patents, if the drug is not available in sufficient quantity or quality or is available only at an abnormally high price. Compulsory licenses have been granted under French law, only because of insufficient local working of the invention.

British law provides for compulsory licensing for abuse of patents or other showing of prejudice to local commercial or industrial activity or hindrance to exports. During the ten-year period from 1958 to 1968, two of 16 applications were allowed. There is also a provision relating to the compulsory licensing of patents on drugs and foods. The history of this provision is of interest.

Section 41 of the British Patents Act calls for the grant of a license under any patent which relates to a substance which is capable of being used as a food or medicine. Such provisions were first put into British law in 1919. During World War I, it became apparent that the United Kingdom was suffering from a lack of medicines and drugs, many of which involved inventions that were covered

by British patents held by foreigners. There simply was no substantial British pharmaceutical industry. To correct this situation, the Patents Act of 1907 was amended to provide for the compulsory licensing of drug patents.[12]

The causes which led to the enactment of the forerunner of present Section 41 of the British Patents Act clearly do not exist today. However, the section remains to plague the British pharmaceutical industry. In 1967, the Banks Committee was organized under the chairmanship of Mr. Morris Banks to examine the British patent system. The Committee concluded that there is no reason in principle why drugs should be treated differently from other patentable matters. They recommended the repeal of Section 41.[13]

Other commonwealth countries have adopted provisions patterned after Section 41 of the British Patents Act. None of such countries has a significant pharmaceutical industry. Canada is typical.

In 1971, A. M. Laidlaw, the Commissioner of Patents for Canada, in defending the compulsory licensing system in Canada, pointed out that the situation there is quite different from that in the United States.[14] Commissioner Laidlaw noted that approximately 95 percent of Canadian patents are granted to non-residents while almost 80 percent of United States patents are issued to United States nationals. It appears that the Canadian government recognizes and is willing to accept the fact that little research is done in Canada, and therefore, a strong patent system is not needed.

A low level of pharmaceutical research in Canada was also noted by the Banks Committee.[15] The Committee found the present Canadian situation to bear some resemblance to that which led to the introduction in 1919 of the special compulsory licensing provisions of British law. It found the purpose of compulsory licensing provisions in Canadian law to be the encouragement of pharmaceutical manufacturing in Canada, as well as to make drugs cheaper by means of increased price competition. Conditions under which drugs are manufactured and supplied in Canada are very different from those presently obtaining in the United Kingdom and, of

12. Address by A. J. Pickford before the Licensing Executives Society, United Kingdom Branch, September 17, 1969.

13. Banks, The British Patent System, Report of the Committee to Examine the Patent System and Patent Law, Her Majesty's Stationery Office, London (1970).

14. Address by the Hon. A. M. Laidlaw before the American Patent Law Association, Washington, D.C., January 25, 1971, published in APLA Bulletin, January-February, 1971.

15. *Supra*, note 13.

course, in the United States. Further, the few available figures concerning the effect of compulsory licensing on drug prices in Canada are confusing at best, and certainly do not show a clear reduction of prices to the consumer.

In view of the limited use of compulsory licensing provisions in foreign countries, it is argued that compulsory licensing would be little used in the United States. Such a conclusion does not necessarily follow. There is an anti-patent climate here that would encourage the grant of compulsory licenses. Also, the strong price motivation possessed by some would encourage the grant of compulsory licenses.

Limited Compulsory Licensing Already in Effect

It is argued that statutory compulsory licensing is not new to the United States. It is said to be found in such fields as atomic energy,[16] pollution technology,[17] and with regard to the protection of plants.[18] In addition, under the provisions of 2 U.S.C. Section 1498, a patented invention may be used or manufactured by or for the United States without a license. The patentee's remedy is an action against the government in the Court of Claims. Such statutes are either directed to highly specialized technology of extreme importance to public safety or they are not directed to the compulsory licensing of patents. For example, 28 U.S.C. 1498 is an eminent domain statute, while 7 U.S.C. 2404 is not concerned with patents, but with a different form of protection.

There have also been several instances of the judicial grant of a compulsory license in infringement cases where the infringer's practice of the patented invention was found to be important to public health, safety, or the environment.[19] Courts have also refused to grant injunctive relief in cases of fraud on the Patent Office,[20] of patent misuse,[21] or of antitrust violations.[22]

The argument advanced is that we already have compulsory licensing and there is no reason why we should resist further compulsory

16. 42 *U.S.C.* Sec. 2183.

17. 42 *U.S.C.* Sec. 1857(h) (6).

18. 7 *U.S.C.* Sec. 2404.

19. *The City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 21 USPQ 69 (7th Cir. 1934); *Viatmin Technologists v. Wisconsin Alumni Research Foundation*, 146 F.2d 941, 63 USPQ 262 (9th Cir. 1945).

20. *Chas. Pfizer & Co., Inc. v. Federal Trade Commission*, 401 F.2d 574, 159 USPQ 193 (6th Cir. 1968).

21. *Allied Research Products, Inc. v. Heatbath Corp.*, 300 F. Supp. 656, 161 USPQ 527 (N.D. Ill. 1969).

22. *Hartford-Empire v. United States*, 323 U.S. 386, 64 USPQ 18 (1945).

licensing provisions. However, it is apparent that the courts already have sufficient authority to prevent any of the alleged abuses of patent rights which are being cited as reasons for compulsory licensing. Therefore, there is no reason to adopt further compulsory licensing statutes.

Arguments Against Compulsory Licensing

The alleged benefits to be derived from compulsory licensing, even if realized, will not offset the many adverse effects. Many of the more important of such adverse effects are discussed below.

Discourages Research

Compulsory licensing would act as a deterrent to research in two ways. First, one objective of research has always been to gain a competitive edge, either with a new and better product or a new and better process. This objective would no longer exist if the competitor were assured of a license under inventions coming from research. Second, today's profits pay for the research leading to tomorrow's discoveries. If today's profits are curtailed as a result of having to compete price-wise with a licensee who has no research expenses, then of necessity research expenditures must be curtailed.

Any research program is by nature a risky undertaking. It would be rare indeed for any researcher to achieve immediate success with no failures strewn in his wake. Yet compulsory licensing would allow one who has not undertaken the risk of research to reap the benefits of the successful research of others. It is certainly unfair to reward those who make no contribution toward progress at the expense of those who have risked much in making a discovery.

Of significance too is the psychological effect of investing time, sweat, and money in a research program that eventually leads to a successful product only to see that product appropriated by others for their own gain. The situation is analogous to the ambitious young worker who tries conscientiously to do a good job while his more experienced co-workers do no more than is necessary. Our young worker soon learns that he gains nothing by his extra efforts since advancement is based on seniority, not merit. He soon loses his ambition. The research worker who finds his discoveries appropriated by others will soon lose his incentive to invent.

Money is a very necessary element of any research program. Industrial research is financed by company profits generated from current

sales. If the research is successful, the resulting new products and new processes will generate further profits, a portion of which can in turn be invested in further research. If the profits from which research investment come are reduced, it is inevitable that research will be reduced.

A research-based company that is forced to share its successful research with others will inevitably suffer a decline in profits. The introduction of competitive products to the marketplace will mean a loss in sales by the patentee with a resultant loss in profits even if the licensee sells at a price substantially equivalent to that of the patentee. If the licensee takes advantage of his lack of research costs to sell at a lower price, the patentee will be forced to meet the price and will suffer even further lost profits. If the licensee does not sell at a reduced price, he will be reaping windfall profits from which he will not be required to pay research expenses.

Concern over the threat to research posed by compulsory licensing has been voiced by such well-knokn persons as Dr. Vannevar Bush, noted for his outstanding contributions to academia, government and industry. In 1961 when Congress was considering compulsory licensing in the pharmaceutical industry, Dr. Bush made the statement that if compulsory licensing were to become law, America would no longer lead the world in the development of new and useful drugs.[23] It was Dr. Bush's contention that industrial research programs on drug development would be severely cut back if the bill on compulsory licensing of pharmaceutical patents was passed. The factors which prompted Dr. Bush's conclusions are still relevant, and it is not difficult to apply his reasoning to industrial research in any area in which patents are subject to compulsory licensing.

Some argue that if the expected decline in industrial research occurs, the slack can be taken up by increased government research. In any event, the consumer will pay the costs of research either as profits to a corporation or taxes to the government. A recent study in one field of technology has indicated that he will pay far more as a taxpayer.

Dr. L. L. Deutsch of the University of Wisconsin made a study of the relative productivity of industrial research and government research in the discovery of new drugs.[24] According to Dr. Deutsch,

23. Statement of Dr. Vannevar Bush before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U. S. Senate, Concerning S. 1552, December 7, 1961.
24. Deutsch, "Research Performance in the Ethical Drug Industry", Marquette Business Review, Fall 1973.

in the period 1940 through 1967, 525 new drugs were discovered in the United States. Industrial laboratories accounted for 457 or 87 percent of these new drugs. In a typical year (1960), industry allocated $215 million to all types of research and development in medicine while government provided $341 million and private support amounted to $100 million. Taking out $112 million of government funds which were spent on basic research, industry's percentage of research expenditures was 39.5. Yet this percentage of expenditures accounted for 87 percent of the new drugs discovered. Dr. Deutsch concluded that industrial research makes a significant contribution to the drugs being marketed in the United States and recommended that the patent system be continued as an incentive for such research.

Reduces Product Competition

There is no greater incentive to discover new products than to have a competitor introduce a successful new product on which he has an exclusive position. To remain competitive, an equivalent or superior product must be discovered. Efforts are made to invent around the competitor's patent, often opening whole new areas of activity. This leapfrogging results in more and frequently better products for the consumer.

Commissioner Dann recently made this same point when pointing out that both patent law and antitrust law tend to stimulate competition, probably more often than they inhibit it.[25] In discussing the role patents play in fostering competition, Commissioner Dann stated:

> "The patent system provides a spur to competition in research and development simply by the threat posed to everyone in an industry that his competitor may get patents on its inventions."

Without the exclusivity which the patent system provides to the discoverer of the first product, there would be no incentive for a competitor to try to develop a competing product. If a license is available on a product already proved to be successful, why risk investment in research with the possibility of failure? It is much more practical to take a license and enter the market with the same product. In this way, the public and the patentee lose, but not the licensee.

25. Address by the Hon. C. Marshall Dann before the FBA-BNA Briefing Conference on Patents, Antitrust, and Trade Secrets, Washington, D.C., June 6, 1974, published in U. S. Department of Commerce News (Patent Office), June 6, 1974.

Leapfrogging may also occur by what has been referred to as "me too" research; i.e., research which is directed toward modification of the original product in an effort to avoid the patent. Such research has been criticized as curbing more exploratory research.[26] It is argued that competitors are encouraged by the prospect of obtaining "me too" patents to follow the leads disclosed in previously issued patents of their competitors at the expense of research in new fields. Research in such a previously defined area is relatively low-risk research offering a high probability of commercial success. However, even "me too" research is preferable, to no research at all.

Further, "me too" research frequently leads to significant discoveries. The Deutsch study[27] points out the importance of "me too" research and so-called "molecular manipulation" in the chemical and pharmaceutical fields. Based on a survey of 90 physicians in Madison, Wisconsin, Deutsch selected 18 drugs as being the most frequently prescribed or the most useful to physicians. Eight of the 18 drugs on the list had been discovered as a result of inventing around competitive patents. Many of these products exhibited effects quite different from the original drug, although closely related in chemical structure.

Thus, leapfrogging benefits the consumer by leading to new products and fostering product competition. This is so whether the leapfrogging occurs through "me too" research or research into new areas.

Product competition and the discovery of new products is essential to successful competition in international markets. In studying proposed mergers between British pharmaceutical companies, the British Monopolies Commission found that a high level of research activity was necessary within the pharmaceutical industry since successful international competition demands the discovery of new products.[28] The Commission concluded that the patent and trademark laws encourage research, and foster competition. Conversely, anything that tends to weaken such laws will discourage research and inhibit competition.

26. Chem. & Eng'r. News 48, November 13, 1961.

27. *Supra*, note 24.

28. The Monopolies Commission, Beecham Group Limited and Glaxo Group Limited; The Boots Company Limited and Glaxo Group Limited; A Report on the Proposed Mergers, Her Majesty's Stationery Office, London (1972).

Discourages Investment

The making of an invention is merely the first step in bringing the benefits of the invention to the public. Generally, a further substantial investment in time and money is required between discovery and marketing. The development of the invention includes the development of a commercially feasible manufacturing process, bringing the invention itself to commercial status which may include obtaining governmental approval for marketing, and promoting the invention and developing a market for it. The costs for such development programs might be substantially more than the costs for the research which led to the initial discovery.

In order to justify the investments necessary to market an invention, a sufficient period of exclusivity in the marketplace is required. Even a large corporation with a large and successful marketing component that can compete on equal footing with competitors would have a difficult time in justifying development expenditures with the knowledge that its competitors would soon be on the market too. Certainly, an independent inventor or small businessman would not be able to gain financial support for even the most meritorious invention when faced with certain competition from larger companies who can outperform him in the marketplace. Unless the necessary investment is made to develop an invention, the public is denied the benefit of it.

Investment in a new product or new venture is risky at best. The risk is justified only if there is a reasonable assurance of making a profit on the investment if the venture is successful. There is no such assurance when there is a certainty that competitors will move in on any successful venture. The competitor benefits from the patentee's investment and development costs, but incurs no risk of failure since he has the option of selecting only successful products.

Encourages Secrecy

The objective of the patent system is to promote the progress of science and the useful arts. This is done by encouraging inventors to make the results of their research available to the public in return for the limited exclusivity conferred by the patent grant. Others can then build upon the knowledge disclosed in the patent literature. One can only speculate as to the effect of withdrawing exclusivity. It is reasonable to expect that, at the least, inventors will be reluctant to publicly disclose the fruits of their labors when they get little or nothing in return.

Not all inventions can be kept secret while being utilized. Inventions which can be discovered by "reverse engineering" of the marketed product are not likely subjects for secrecy. However, there are many inventions which can be maintained as trade secrets while being practiced. Compulsory licensing will certainly encourage the use of trade secrets rather than the patent laws to protect such inventions. Science and the useful arts are not advanced by secrecy.

Ironically, when special compulsory licensing legislation is adopted or proposed for a particular field of technology, it frequently is directed to a field of technology where progress is most needed. Such is certainly true in such fields as human health, pollution technology, and energy. Compulsory licensing in such fields can serve only to inhibit research and the disclosure of technology and thus retard, rather than advance, technology in such fields.

Commissioner Dann has expressed surprise at the number of Congressmen and others who seem to feel that compulsory licensing is necessary in critical fields of technology.[29] He views such thinking as shortsighted in terms of national policy. The more important the technological area, the greater is the need for effective incentives to spur creative and innovative developments. Also, there is a greater need in such areas for early disclosure of new discoveries so that others may build on such discoveries, leading to further developments. Secrecy in such fields of technology is very undesirable.

Encourages Competition From Abroad

Although compulsory licensing will be a boon to domestic companies who do not engage in research, it will be an even greater boon to foreign companies. Domestic companies will compete with the patentee on the basis of comparable equipment and labor costs but will realize an advantage from no research investment. A foreign company, on the other hand, in addition to having no research investment, may also have a substantial advantage in equipment and labor costs.

A low-cost foreign operation has a very real potential for underselling all domestic producers—not only the patentee, but also domestic licensees. The prospective effect on the U.S. labor market should alone be enough to dissuade supporters of compulsory licensing.

29. *Supra*, note 25.

The spectre of low-cost foreign competition would be an even further deterrent to investment in research and development. Why make new discoveries and develop new markets with the prospect of being put out of business by foreign competition.[30] Low-cost foreign operations already have a competitive edge; let's not be foolhardy enough to increase their advantage.

Recommended Action

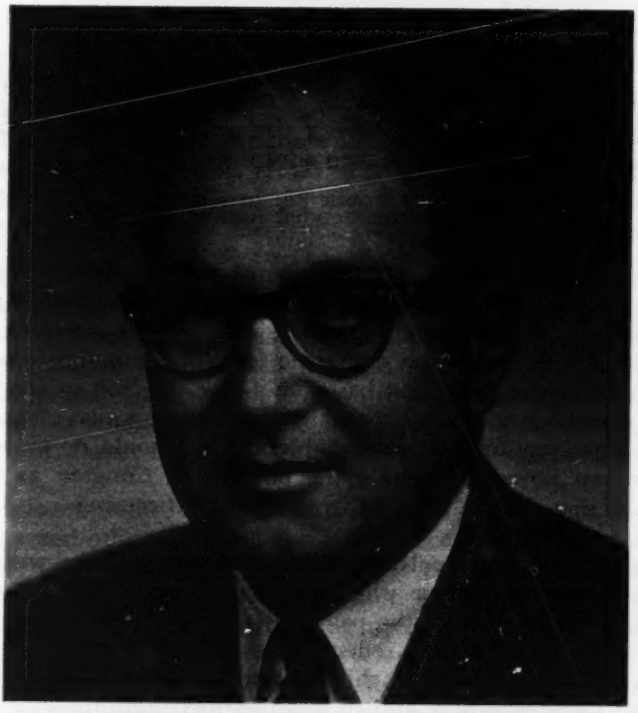
The vast majority of the patent bar agree that compulsory licensing is an evil that threatens the patent system. We disagree as to the steps that should be taken to meet the threat. There are two general schools of thought. One is that some form of compulsory licensing is inevitable and the patent bar should take the lead in fashioning the statute so as to make it palatable. The other is that compulsory licensing in any form is unthinkable and we should do everything within our power to educate the public and Congress as to the mischief that will be wrought by compulsory licensing.

Those of the first school believe that a statute can be written to satisfy the goals of those who want compulsory licensing without sacrificing the values of the patent system. I think one need look only to the goal of price reduction to see that no statute can be devised which will satisfy this goal while preserving the patent system. Those who have drafted a compulsory licensing statute have intentionally omitted price as a criterion for demanding a license.[31] Such an omission will not satisfy proponents of compulsory licensing who attribute alleged high prices to patents.

It is folly to think that a compulsory licensing statute making no concession to price will be acceptable to those members of Congress who associate patents with what they consider to be high prices. It is just such members of Congress who are the most adamant in demanding compulsory licensing legislation. If they are not satisfied, they will continue their demands and we will have unacceptable compulsory licensing legislation unless we can convince Congress that such legislation in any form is undesirable.

30. *Supra*, note 9.
31. *Supra*, note 9.

W. BROWN MORTON, JR.



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Brown Morton was a president of the American Patent Law Association in the year of 1964-65 and a member of the Board of Managers of the Association from 1956-59. He has been the APLA's delegate to the ABA House of Delegates since October 1965.

He has also been extremely active in Bar Association and related activities among which he was an advisor to the United States Delegation at the Washington Diplomatic Conference on the Patent Corporation Treaty in 1970, a member of the Advisory Committee on the Civil Rules, 1961-1970, and is an ABA representative on the National Conference of Representatives of the ABA and the American Association for the Advancement of Science, this year, 1974.

COMPULSORY LICENSING

An Unplanned-for Addition to the United States Patent System

BY W. BROWN MORTON, JR.

Introduction

It has been said that I am "for" compulsory licensing and thus deserving of various uncomplimentary epithets, the average of which is adequately expressed by "a misguided subversive". When I was asked to write this article some months ago dealing with a limited form of compulsory licensing, the *Foster v. American Machine and Foundry Company*[1] case had not yet been decided, but I was lucky. In my natural inclination to leave undone the things I ought to have done, I delayed long enough to have before me the opinion of the Court of Appeals for the Second Circuit in this *Foster* case, hereinafter *"Foster II"*.

Actually, I am personally opposed to compulsory licensing and recognize it as clearly antithetical to the basic premise of the patent system. I believe in the philosophy of the *Paper Bag Patent Case*[2]:

> "From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee. If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many actions. These are well-recognized grounds of equity jurisdiction, especially in patent cases, and a citation of cases is unnecessary. Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, we do not decide."

I subscribe to the spirit of Mr. Justice Holmes' dissent in *Dr. Mills Medical Co. v. Park & Sons Co.*[3]:

1. 492 F.2d 1317, 182 USPQ 1 (2nd Cir. 1974).
2. 210 U. S. 405, at 430 (1908).
3. 220 U. S. 373, at 411 (1911).

> "***I think that at least it is safe to say that the most enlightened judicial policy is to let people manage their own business in their own way, unless the ground for interference is very clear.***."

I endorse Mr. Justice Frankfurter's like dissent in *Scott Paper Co. v. Marcalus Co.*[4]:

> "***As against the loss to the public of one possible manufacturer is put the public policy of fair dealing between man and man.***".

Notwithstanding these personal beliefs, I think the point of view Tom Arnold and I expressed at the 1973 APLA Spring Meeting in St. Paul[5] was the course of wisdom and I think *Foster II* proves our point. I shall proceed to an analysis of *Foster II*.

The Foster II Decision

The decision here under analysis deals solely with the remedy to be afforded an owner of a patent found valid and infringed. The patent in suit, No. 2,882,384 issued April 14, 1959 entitled "Welding System", related to an improvement in electrical contact resistance welding and included both *apparatus* and *use* claims. It was found valid and infringed in *"Foster I"*.[6] Damages were awarded on a reasonable royalty theory based on the output power of the infringing apparatus. We are not here concerned with this application of 35 U.S.C. §284 (relating to damages); rather we are concerned with the revolutionary application of 35 U.S.C. §283[7], the full text of which "revolution" I quote *verbatim*:

> "Appellant contends that the District Court erred in denying an injunction and adjudging, in lieu thereof, a compulsory licensing in favor of appellant at the royalty fixed by the Court.
>
> "We do not find any difficulty in agreeing with Judge Palmieri that an injunction would be an inappropriate remedy in this

4. 326 U.S. 249, 67 USPQ 193 (1945).

5. 1973 Spring Meeting of the American Patent Law Association at St. Paul, see APLA Bulletin, April-May 1973, pp. 255-259.

6. *Foster v. Magnetic Heating Corporation*, 297 F. Supp. 572, 160 USPJ 246, aff'd per curiam, 410 F.2d 12, 161 USPQ 133 (2 Cir.), cert. denied, 396 U.S. 829, 163 USPQ 704.

7. §283 Injunction
The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

case. An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances, 35 U.S.C. §283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. See Hoe v. Boston Daily Advertiser Corp., 14 F. 914. Here, as the District Court noted, the appellee manufactures a product; the appellant does not. In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable. Nerney v. New York, N.H. & N. R. Co., 83 F.2d 490, 410-411, 29 USPQ 456, 457-458; American Safety Device Co. v. Kurland Chemical Co. 68 F.2d 734, 21 USPQ 30.

"Instead, the District Court avoided ordering a cessation of business to the benefit of neither party by compensating appellant in the form of a compulsory license with royalties. This Court has approved such a 'flexible approach' in patent litigation Royal-McBee Corp. v. Smith-Corona Marchant, Inc., 295 F.2d 1, 6, 130 USPQ 377,381. Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair".[8]

It is apparent that the Second Circuit[9] does not acknowledge the revolutionary nature of its ruling, but rather seeks to cloak its decision in the respectable trappings of precedent. We shall show these trappings to be no more real than the celebrated Emperor's clothes.

Turning to the facts found operative in the application of 35 U.S.C. §283 in *Foster II* as stated in the Second Circuit opinion, these include:

* * *

"The appellant, Julius E. Foster, the patentee and the owner of the patent in suit, is a patent solicitor and a member of the Bar of the State of New York and of the Commonwealth of Pennsylvania. He has been at the Bar for almost fifty years. He has never engaged in any manufacturing or other business connected with the patent in suit.

8. Supra note 1, at p. 6.

9. The decision was made by a panel consisting of Circuit Judges Waterman and Feinberg, both active Second Circuit judges, and District Judge Gurfein, sitting by designation from the Southern District of New York. Judge Gurfein wrote the opinion.

"The principal defendant and real party in interest is appellee American Machine & Foundry Co. (AMF). Infringement of the patent has occurred as a result of the commercial activity of AMF's wholly-owned subsidiary, AMF Thermatool, Inc., and its predecessors, and the individual proprietors of such predecessor corporations (herein collectively referred to as Thermatool.) Thermatool manufactured welding machinery, which included *as a component* an impeder, which embodied the process protected by Foster's patent.

"Thermatool in turn sold and leased the welding systems, both those containing the infringing impeder and those without it, to foreign and domestic mill producers for the production of longitudinally welded tubes and pipes. The master found that 'the value of the impeder process, as disclosed in the Foster patent, constitutes a minor but significant fraction of the total value of Thermatool's welding technology'. (Court's footnotes omitted).[10]

"In practical terms, Foster had a patent which obviously required the manufacture of a piece of equipment to make it usable. Foster does not have any licensee who manufactures his patented apparatus or uses his patented process. The parameters of his patent embraced a component in a larger system which utilized his process. He did not have equipment to sell directly to the mill operators. He was hardly in a position to work out an agreement directly with the mill operators. His theoretical licensee, in the formulation of a license agreement, was the manufacturer of the welding equipment who could use his process. And it is precisely in hypothetical negotiation with that prospective licensee that the District Court fixed the reasonable royalty.

"Finally, we note that there are no other factors that would have been considered at the 'suppositious meeting' to determine the reasonable royalty. Since Foster never operated commercially, there are no such factors as Foster's marketing program, Foster's lost sales of non-patented items because of the infringement, or Foster's lost profits."[11]

* * *

"Twenty-six of these [37] units [not the subject of any relief] were sold before April 14, 1959, the issue date of the Foster patent. Eleven of these units were allegedly sold after the issue date.

10. Supra note 1, at p. 3.
11. ibid, at p. 5.

> "With respect to the units sold *before* the issue date of the Foster patent, the sale could not have been at the time, an infringement, or an inducement to infringe. Coakwell v. United States, 372 F.2d 508, 511, 153 USPQ 307, 308-309. The units sold were Thermatool's infringing units. We think that the continued use of the welding systems by the mill operators after the flat payment for the systems when bought, did not later constitute an infringement of the after-issued Foster patent. See Aluminum Extrusion Co. v. Soule Steel Co., 260 F. Supp. 221, 224, 151 USPQ 609, 610-611. All the revenues from these sales were derived by AMF before the Foster patent issued.
>
> "Since Foster has shown no actual damage, we revert to the 'suppositious meeting' after the Foster patent issued, to fix a royalty. We agree with Judge Palimeri 'that the parties would have to agree that no royalty would be payable with respect to infringing equipment sold prior to the issuance of plaintiff's patent'.
>
> "With respect to the eleven units allegedly sold after the issue of the Foster patent, the master found that 'the evidence does not establish that such eleven units have actually been fitted with impeders and operated in the United States for the production of longitudinally welded tube and pipe.' The appellant points to no evidence to convince us that the finding is clearly erroneous.[12]

Several things emerge from these facts. First, the patentee is the *inventor* himself, not an assignee; his only relevant contact with welding technology is as an inventor, not as a manufacturer of welding equipment or a practioner of a welding process.[13] Strangely, the fact that he thus occupied the very role of inventor which the Constitution seeks to foster, served to *diminish* the remedy available to him from what would have been available to him as a manufacturer or processor who was the assignee of his patent.

Second, not only was the manufacturer of "infringing" apparatus that had been sold *before* the issue date of the patent free of any liability for making and selling it[14], but the purchasers of it are free from liability for continued use of it to practice the separately claimed process after the issue date, a mode of proceeding condemned in the cases[15].

12. ibid, at pp. 5-6.

13. He is a patent lawyer, but his contacts in that role with the welding industry, if any, would be clearly irrelevant.

14. Correctly so as far as the record shows.

15. *E.g., Am. Midlings Pur. Co. v. Christian*, Fed. Cas. No. 307 (C.C., D. Minn. 1877),

Third, the patentee was allowed no recovery for units not shown to have been assembled *and* used commercially in the United States, though sold after the issue date.

Fourth, the defendant AMF was the "prime" infringer in the sense that he was the sole commercial source of the infringing *apparatus* and the obvious efficient repository of power to license the process to all users without discrimination, harassment, or a multiplicity of suits. Thus Foster had not sued the "secondary" infringers, but had moved directly against the real party in interest.

Ironically, though one might properly think that each of these four factors was one which suggested a need *for* injunctive relief, each seems to have been taken by the Second Circuit the other way round. At least the opinion candidly and literally acknowledges that it is approving the judicial grant of "a compulsory license".

That compulsory license operates to authorize prospective infringement by a direct infringer (of apparatus claims) who is also a contributory and inducing infringer (of process claims), thus transferring control over commercialization of the invention from the inventor to that infringer. No other decision I know of goes that far. The court's stated grounds are the patentee's "utter failure to exploit the patent on his own". No other decision I know of relies on such grounds alone. The opinion suggests that the plaintiff should be grateful for "half a loaf". No other decision I know of so condescendingly destroys the exclusivity of a patent grant.

The Foster Precedents Analyzed

The Second Circuit cited only the following cases, listed in inverse chronological order:
Royal-McBee Corporation v. Smith-Corona Marchant, Inc.[16]
Nerney v. New York, N.H. & H.R. Co.[17]
American Safety Device Co. v. Kurland Chemical Co.[18]
Hoe v. Boston Daily Advertiser Corp'n.[19], (hereinafter "Hoe II").

None of these cases is authority for the grant of an on-going compulsory license to a primary infringer who has been finally held liable in damages for all of his actionable infringements. None makes reference to the patentee's non-working of the invention as a circumstance relevant to the remedy available to him.

16. 295 F.2d 1, at p. 6, 130 U.S.P.Q. 377, (2 Cir. 1961).
17. 83 F.2d 409, at 410-411, 29 U.S.P.Q. 456. (2 Cir. 1936).
18. 68 F.2d 734, 21 U.S.P.Q. 30, (2 Cir. 1934).
19. 14 Fed. 914 (C.C., D. Mass. 1883).

Royal-McBee related to a patent issued July 4, 1933 on a typewriter margin control which was being used by the successful assignee-patentee in large scale production, and also by at least two large scale infringers, the defendant, Smith-Corona, and another losing defendant, Remington[20]. The District Court found Royal's conduct *vis-a-vis* Smith-Corona to have been such as to forfeit Royal's right even to the *legal* relief of damages for infringements committed prior to the actual filing of the suit. The same conduct was also found to justify the withholding of the *equitable* remedy of injunction for the 33 months remaining before expiration of the patent, but not to justify the denial of damages for continued infringement after the complaint was filed. It was this action of the District Court in giving something other than an all-or-nothing effect to Smith-Corona's estoppel defense which the *Royal-McBee* panel of the Second Circuit approved as a "flexible approach" in 1961. This was scarcely the addition of a compulsory working requirement to the patent statutes of the United States, a step the Congress has consistently refused to take.[21]

Nerney is the familiar freight car case. What is not usually noted is that the defendant railroad, the New Haven, was already under an injunction with respect of its own cars, over which it had such control as to make the enforcement of the ban entirely practical and merely an economic burden on the defendant's private purse. Nerney sought to extend his injunction to forbid the New Haven to accept infringing cars belonging to other companies for transit over the New Haven tracks. It was found to be simply impractical to enforce the ban at the car-interchange points and further to place a substantial burden on the public by disrupting the freight service of wholly innocent shippers. The court was at pains to point out that the principal other infringer was the Pennsylvania against which Nerney had available a complete remedy, including a direct injunction. Thus, the Nerney decision cited is no authority at all for grant of a compulsory license to a primary private infringer. Indeed, it appears to follow the common-sense of Judge Lacombe in *Thomson-Houston Electric Co. v. Union Ry. Co.*, 78 Fed. 365,[22].

American Safety Device is even more remote; it is merely one in a long chain of decisions which decline injunctive relief to a patentee whose patent expires during the pendency of the law suit.

Hoe II might seem better to support the action of the Second Cir-

20. See *Royal Typewriter Co. v. Remington Rand*, 168 F.2d 691 (2 Cir. 1948).
21. See the *Paper Bag Patent Case*, supra note 2.
22. 78 Fed. 365 (C.C., S.D.N.Y. 1896).

cuit in *Foster II*, but careful reading shows this is not so. The patent in suit, No. 131,217, was for a combination of elements comprising a part of a large printing press in daily use producing the Boston defendant's newspaper. The matter arose on a motion for a preliminary injunction, the patent having already been found valid and infringed by a soon-to-be justice of the Supreme Court, Blatchford, C.J., sitting as a circuit judge, *Hoe v. Kahler*[23], (Hoe I). The Boston defendant had bought its machine with notice of Hoe's claim and had been indemnified by its manufacturer. In denying Hoe's motion, Circuit Judge Lowell had this to say:

> "Is this a case for an injunction? The improvement in question is but part of a large machine, upon which the daily newspaper of the defendants is printed, and a change of this part of it, though possible, is difficult, and might embarrass the usual course of business of the company, and would cause much expense to the defendants, or, rather, to their guarantors. Nor would it be of any advantage to the plantiffs, except to coerce a settlement, for they do not use printing machines, but make and sell them in the market. Whatever they are entitled to in the way of damages, amounts, in effect, to a royalty. Their real damage was suffered when this machine was bought, and is not affected by the amount or duration of its use. Acting on this view of the matter, the parties have been negotiating for the payment of a license fee, but are very far apart in their estimate of its amount. The only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation than they are now in, or than the defendants will then be in for the further conduct of the negotiation. If the case were in such a situation that I could now decide the question of damages, I might, perhaps, order an injunction, unless that amount were paid within a reasonable time."[24]

Clearly, *Hoe II* is not a case sustaining the grant of a compulsory license for the continuation of an infringing course of conduct by a primary infringer, for, as the court observed, "[t]he contest is, in fact, between rival manufacturers". The nominal defendant in *Hoe II* was a newspaper publisher—a relatively innocent bystander or secondary infringer, the interruption of whose use of the invention was in some measure a detriment to the public. And Hoe's competing manufacturer had already been enjoined. *Hoe II* is good authority for *Nerney;* it is not, for *Foster II.*

23. 12 Fed. 111 (C.C., S.D.N.Y. 1882).
24. Supra note 21 at p. 915.

The Hoe II Citations Reviewed

Hoe II is notable if only because the redoubtable Frederick P. Fish, Esq. appeared for the *losing* complainants. Circuit Judge Lowell noted that "[t]he decisions which refuse an injunction, in cases very like the present, have been collected by the diligence of counsel". They are here tabulated chronologically and those cases not later reviewed by Circuit Judge Lacombe in *Campbell Printing Press & Manufacturing Co. v. Maulialtan Railway Co.*[25], are marked with an asterisk:

Barnard v. Gibson,[26] (1849);
Forbush v. Bradford,[27] (1858);
Howe v. Morton,[28] (1860);
Sanders v. Logan,[29] (1861);
Stainthorp v. Humiston,[30] (1862);
Lowell Manuf'g. Co. v. Hartford Carpet Co.,[31] (1864);
Morris v. Lowell Manuf'g. Co.,[32] (1866);
Bliss v. Brooklyn,[33] Fed. Cas. No. 1544, (C.C., E.D.N.Y. (1871);
Wells v. Gill,[34] (1872);
**Amer. Middlings Pur. Co. v. Christian,*[35] (1877);
Colgate v. Gold & Stock Tel. Co.,[36] (1879);
**N.P.R.Co. v. St. P., M. & M. Ry. Co.,*[37] (1880);
M' Crary v. Pennsylvania Canal Co.,[38] (1880);
New York Grape Sugar Co. v. American Grape Sugar Co.,[39] (1882);
**Ballard v. Pittsburgh,*[40] (1882); and

*Rule 93, Rules of Practice in Equity,[41] (1879).

25. 49 Fed. 930 (C.C., S.D.N.Y. 1892).
26. 7 How. 650 (U.S. 1849).
27. Fed. Cas. No. 4930 (C.C., D. Mass. 1858).
28. Fed. Cas. No. 6769 (C.C, D. Mass. 1860).
29. Fed. Cas. No. 12295 (C.C., W.D. Pa. 1861).
30. Fed. Cas. No. 13280 (C.C., N.D.N.Y. 1862).
31. Fed. Cas. No. 8569 (C.C., D. Conn. 1864).
32. Fed. Cas. No. 9833 (C.C., D. Mass. 1866).
33. Fed. Cas. No. 1544 (C.C., E.D.N.Y. 1871).
34. Fed. Cas. No. 17394 (C.C., D.N.J. 1872).
35. Fed. Cas. No. 307 (C.C., D. Minn. 1877).
36. Fed. Cas. No. 2991 (C.C., S.D.N.Y. 1879).
37. 4 Fed. 688 (C.C., D. Minn. 1880).
38. 5 Fed. 367 (C.C., E.D. Pa. 1880).
39. 10 Fed. 835 (C.C., N.D.N.Y. 1882).
40. 12 Fed. 783 (C.C., W.D. Pa. 1882).
41. See beginnings of 97 U. S. (1879). Rule 93 of the Rules of Practice in Equity reads as follows:

> "When an appeal from a final decree in an equity suit, granting or dissolving an injunction, is allowed by a justice or judge who took part in the decision of the cause, he may, in his discretion, at the time of such allowance, make an order suspending or modifying the injunction during the pendency of the appeal, upon such terms as to bond or otherwise as he may consider proper for the security of the rights of the opposite party." (Promulgated January 13, 1879.)

Hoe II and most of its citations were authoritatively reviewed by Judge Lacombe in *Campbell*,[42] Judge Lacombe anticipated Mr. Justice Peckham in *E. Bement & Sons v. National Harrow Co.*,[43] in refusing to follow the ruling of Judge Blodgett in *Hoe v. Knap*,[44] [*Hoe III*].

In *Hoe III* the proposition was advanced, "under a patent which gives a patentee a monopoly, he is bound either to use the patent himself, or allow others to use it, on reasonable terms"[45]. Whether one adopts Judge Lacombe's view, "no authorities for this proposition *** are cited ***, nor is such a construction of the statute *** supported by argument "or Justice Peckham's" '*** The *dictum* found in [*Hoe III*] is not supported by reason or authority [emphasis in original], it is apparent that *Foster II* revives a long-discredited doctrine. Which is not to say that Judge Lacombe was blind to "the principles of equity [35 U.S.C. §283]". In fact, in *Campbell*, he observed:

> "Defendant also insists that injunction should not issue because the infringing couplings now in use by it are used in the service of the public, and to enjoin would be to work great hardship to the public. In Bliss v. Brooklyn, 4 Fish. Pat. Cas. 596, injunction was refused because the hose couplings complained of were necessary for the daily use of the city in the prevention of fires; and there is a long line of authorities to the same effect. There is, however, nothing in the case at bar, beyond the bare assertion of the defendant, to show that an injunction properly regulated as to time may not be obeyed without in any way interfering with the service which defendant renders to the public as a common carrier of passengers. It seems to have experienced no difficulty at all in temporarily withdrawing its locomotives and cars from such service at suitable seasons, for a sufficient length of time to affix the complainant's couplings. Why it may not, in like manner, remove them, does not appear. Complainant may take decree for account and injunction. The terms of the injunction, providing from how many cars and locomotives the infringing couplings shall be removed each week, may bet settled on notice,[47] . . .".

42. Supra note 25.
43. 186 U. S. 70 (1902).
44. 27 Fed. 204 (C.C., N.D. Ill. 1886).
45. id. at p. 212.
46. Supra note 25 at p. 935.
47. ibid.

He followed the same pattern in equitably shaping injunctive relief in *Thompson-Houston*[48], and in *Westinghouse Air Brake Co. v. Great Northern Ry. Co.*[49]

One of the cases cited in *Hoe II*, not reviewed in *Campbell*, is *Ballard v. City of Pittsburgh*.[50] This points up a proposition as to which there is no substantial question, namely, that public services will not be interrupted by patent injunctions shutting off the continued use of substantially completed facilities. In *Ballard*, a patented wooden pavement had been installed in the defendant city's streets. The court rightly declined to order it torn up. This, in no sense, authorized Pittsburgh to build like streets in the future. The clear rationale of this line of cases is no doubt the reason the Second Circuit, in *Foster II*, made no reference to the celebrated case of *City of Milwaukee v. Activated Sludge, Inc.*[51] By extension, the courts have also declined to cause gross economic waste by ordering the scrapping or disuse of existing devices in private hands, *e.g., Landis Tool Co. v. Ingle*[52].

Another *Hoe II* case not reviewed in *Campbell* is *Am. Middlings Pur. Co. v. Christian*[53]. This points up the important procedural matter of the status of patentee's established position on validity and infringement. Only if these are virtually ironclad will an injunction issue before final decree making them certain, but in lieu of injunction a patentee may well be protected by a bond and a direction for a periodical report of the accused infringing acts. That this is, indeed, acting "in accordance with the principles of equity [35 U.S.C. §283] is shown by the third *Hoe II* citation not reviewed in *Campbell, N. P. R. Co. v .St. P., M. & M. Ry. Co., supra,* where a like bond requirement in lieu of injunction was ordered in a non-patent case. And see also Rule 93 of the Rules of Equity[54].

It would overextend the bounds of this paper to review all the decisions I have read or noted as being of real or seeming relevance to the correctness of *Foster II*. I simply repeat my initial observation that *Foster II* is a precedent-shattering revolution the bounds of which I cannot guess. As we have seen from the quoted passages

48. Supra note 22.
49. 86 Fed. 132 (C.C., S.D.N.Y. 1898).
50. Supra note 40.
51. 69 F.2d 577, 21 U.S.P.Q. 69, (7 Cir. 1934).
52. 286 Fed. 5, (3 Cir. 1923).
53. Supra note 35.
54. Supra note 41.

dealing with the *Foster II* facts, the Second Circuit is not proceeding on the assumption that Foster's invention was vital to the U. S. welding industry or even to the defendant manufacturer. There is no logical reason to limit the rationale of *Foster II* to cases where an entire patent is not being exploited. Why does it not justify a compulsory license under an unexploited claim? Similarly, where a patent is part of a portfolio of related patents, why does *Foster II* not justify a compulsory license under Patent A even though the patentee is exploiting a competitive substitute covered by his Patent B? Those are the reasons why I reach the following conclusion.

Conclusion

It is the thrust of this article that *Foster II* demonstrates that the courts are succumbing to the current pressures for compulsory licensing in a manner materially to reshape the patent system and that, therefore, legislation is required to prevent a United States patent from becoming, by judicial fiat, nothing materially different in effect from a Soviet "inventor's certificate". Hence, I urge that Title 35, United States Code, be amended by adding thereto a section 294, as follows:

§294. Compulsory Licensing

"(a) (1) At any time more than three years after the issuance of a patent and more than four years after the filing of the application for the patent, any person may, in accordance with the requirements of this section, commence a civil action against a patentee to obtain a compulsory license under such patent.

"(2) The venue of a civil action commenced pursuant to the foregoing sub-section shall be the district court for the district in which the patentee, if a natural person, resides or in which the patentee, if a corporation, is incorporated or has its principal place of business or, in the case of a non-resident patentee, as provided in section 293 of this title.

"(b) The complaint in the action shall set forth the nature and purpose of the use which plaintiff intends to make of the license, the steps taken by plaintiff to obtain a voluntary license, and statements of the expected consequence of failure to obtain the license and the expected result of grant of the license.

"(c) Within ten days after service of the summons and complaint, plaintiff shall serve a copy thereof on each exclusive licensee under the patent whose license is recorded in the Patent Office who shall have the right to intervene in the action.

"(d) Plaintiff shall be entitled to an order directing the patentee to grant a non-exclusive license to plaintiff, if:

"(1) the invention covered by the patent is of primary importance in a general field of endeavor;

"(2) for a period of at least three years prior to the commencement

of the action, there has existed a public need for the invention which has not been reasonably satisfied by the patentee, his licensees (including prior compulsory licensees), and alternative products or processes;
"(3) plaintiff has both the requisite resources and intent to market goods or services of good quality under the license sought which will satisfy the public need;
"(4) plaintiff cannot otherwise obtain a license on terms which the court deems to be reasonable for the use of the invention intended to be made by plaintiff; and
"(5) plaintiff has not for six months before commencement of the action, or during the action, committed acts which he knew or reasonably should have known were acts of infringement of the patent.

"(e) the court shall not order the grant of any license pursuant to this section for any purpose other than stated in the complaint; nor shall any court order the grant of any license under a patent already the subject of a license ordered under this section without action commenced pursuant to this section and separate findings as provided herein.

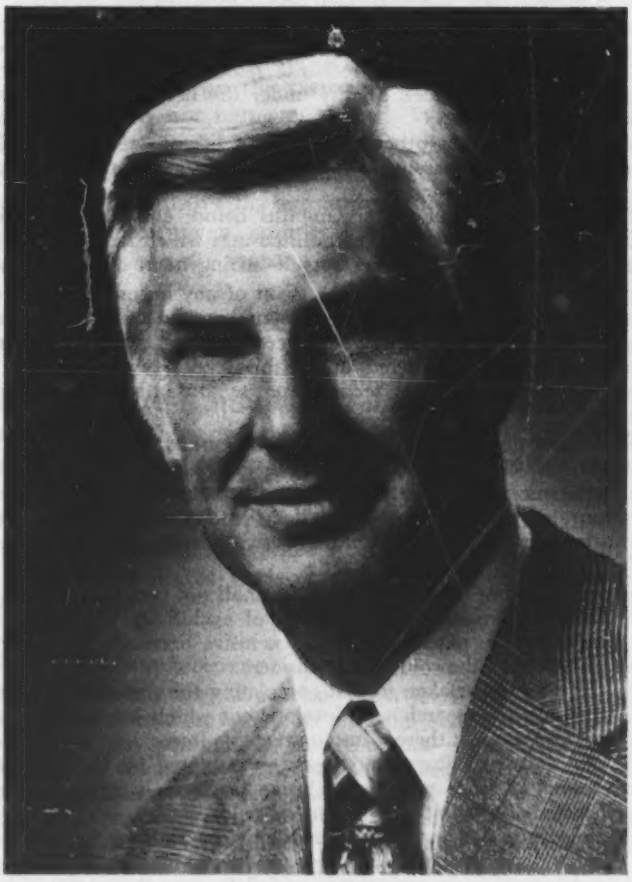
"(f) In any decree ordering a license hereunder, plaintiff shall be ordered to pay compensation therefor to the patentee and any then exclusive licensee under the patent in such manner and at such times as the court may find reasonable under the circumstances, and in such allocation between patentee and exclusive licensees as the court deems just.

"(g) The amount paid by the licensee shall not be less than reasonable for use of the invention and for loss of exclusivity which the license imposes upon the patentee and his exclusive licensees. In determining the compensation the court shall consider:
"(1) the risks undertaken in first completing the patented invention;
"(2) the cost of research and development which led to the invention and the development thereof into marketable form;
"(3) the costs of failures and losses encountered by the patentee, his predecessors in title, and his exclusive licensees in other research or development efforts in the same general field;
"(4) the efforts and expenditures made by the patentee, his predecessors in title, and his exclusive licensees in developing the market for the patented invention, in prosecuting and defending the patent right, and in defending actions for licenses under this section; and
"(5) the savings achievable by the proposed licensee through use of the invention.

"(h) The order of the court shall specify the duration of any license ordered under this section, and shall specify such other terms and conditions as the court deems advisable to protect both the public interest and the property interest of the patent owner and his exclusive licensee in the invention".

All other statutory provisions for compulsory license under United States patents except 28 U.S.C. §1498 (a) should be repealed. The legislative history of this proposal should make it plain that *Foster II* is being overruled, but that §283 is being continued and Judge Lacombe's application of its principles in *Campbell* are being approved.

B. R. PRAVEL



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SAY "NO" TO MORE COMPULSORY LICENSING STATUTES

BY B. R. PRAVEL

Introduction

The United States Supreme Court has, in all of its dignity and rightful authority, declared for posterity:

> "That a patent is property, protected against appropriation both by individuals and by the government, has long been settled".[1]

In any proposal for a compulsory license statute, whether it be general, (i.e. one intended to cover all situations where licensing of patents could be forced against the will or desires of the patent owner), or specific, (i.e. where the patent owner could be forced to license his patents only for a selected situation, such as non-use, excessive profits etc.), the basic recognition of a patent as property is essential. In this area, the United States Supreme Court stands as the bulwark against the waves of destruction often pounding against this fundamental which has its origin in nothing less than the United States Constitution.[2]

Compulsory licensing in any form is an in-road on such property right.[3] No doubt there are now, and have been for many years past, those who regard any kind of private ownership of property as evil, and there are others, who, even though they would not go so far as to condemn the ownership of all private property, believe that, at least, the private ownership of patents cannot be tolerated. The comments in this article are directed to those two groups, and to a third group as well, which has sincere proponents of the patent system, who have mistakenly become convinced that it is necessary to "pacify" the first two groups by proposing compulsory licensing statutes. To that group, it is the author's hope that this article will say, as in the famous words of John Paul Jones, "Don't give up the ship. We have just begun to fight."

The fight is not of recent vintage.[4] In *Hartford-Empire*[5] the Supreme Court observed:

1. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 64 USPQ 18, (1945).
2. *U. S. Constitution*, Art. I, sec. 8, clause 8.
3. James M. Wetzel, Can Patent Properties Be Redistributed Through Compulsory Licensing?, 1 APLA Quarterly Journal pp. 184-191, No. 3, (Summer 1973).
4. S. Chesterfield Oppenheim, "Cases on Federal Anti-Trust Laws", (1948), pp. 494-495.

"Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. It has failed to enact these proposals into law."

Also, as observed in the *Hartford-Empire* case, the Temporary National Economic Committee (TNEC) made a Final Report[6] which recommended compulsory licensing legislation "which will require that any future patent is to be available for use by anyone who may desire its use and who is willing to pay a fair price for the privilege." From that extreme, which would be completely destructive of the value of patents, we find a number of currently proposed compulsory licensing bills of varying degrees of specificity and scope. The primary thesis of this article is that compulsory licensing statutes are not necessary, even for specific situations wherein compulsory licensing would be constitutional, because in those rare instances, the courts can adequately provide for compulsory licensing under the strictures of the United States Constitution and within the framework of judicial precedent. It should be emphasized that the fact that under certain conditions compulsory licensing may be proper does not in any sense establish the desirability for a compulsory licensing statute or statutes, as has been argued by some proponents recently for a general licensing statute.[7] On the contrary, the presence of adequate safeguards through judicial control of patents is submitted to negate any desirability or need for a general compulsory licensing statute, or even specific statutory compulsory licensing provisions. The concern which we should all have is that expressed by Judge Frank in a slightly different context, but with equal applicability when compulsory licensing of patents is concerned:

"We should not throw out the baby with the bathwater."

In other words, we need to be certain that neither Congress nor the courts "throw out" or destroy the patent system with its value to the economy of the United States by attempting to correct abuses, imagined or real, of patents by some patent owners.

Constitutional Limitations Re "Taking" Private Property

Before considering patents specifically, a brief look at some of the controlling constitutional limits on property in general must be made.

5. Supra, note 1, at p. 401 or 389.

6. U. S. Congress, Senate, *Final Report and Recommendations of the Temporary National Economic Committee*, S. Doc. 35, 77th Cong., 1st sess., 1941, pp. 36,37.

7. U.S., Congress, Senate, Hart Bill, S. 2287, 93rd Cong., 1st sess.; Morton, article at p. 182.

The only constitutional provision for "taking" private property is that of eminent domain as provided for in the United States Constitution, Fifth Amendment, the pertinent portion of which reads:

> ". . . nor shall private property be taken for public use, without just compensation."

In the usual case of a "taking" of private property under eminent domain, the taking is by the (a) government for (b) "public use".[8] Normally, there is "one complete taking and one complete accrual of the right of the owner to compensation".[9] When private property is taken by the government under eminent domain, the Constitution further provides for the protection of "due process".[10] The courts have had numerous occasions to spell out the requirements of "due process," such as that of "notice reasonably calculated, under all the circumstances, to appraise interested parties of the pendency of the action and afford them an opportunity to present their objections."[11] With respect to the requirements of "due process", when the government is exercising its powers of eminent domain, there are clearly established legal guidelines and precedents. The courts are likewise experienced and well adapted for determining the "just compensation" for the private property taken by the government for public use.[12]

Under the mantle of "police power", Justice Douglas, speaking for the Supreme Court, extended the scope of eminent domain in *Berman* v. *Parker*[13] to permit the District of Columbia to take a man's department store in a slum area under an area redevelopment statute. Although the store owner made the argument that the "taking" was unconstitutional because it was "a taking from one businessman for the benefit of another businessman", the argument was rejected on the broad basis of the public welfare. Although the case is subject to broader ramifications, the property was within a large blighted area and Congress had elected to attack the problem on an area basis rather than a structure-by-structure basis, so limitation is implicit in the decision—namely, in the absence of the public need to deal with the whole area as an entity, it would *not* have been constitutional to have taken the property from one person for the benefit of another person.

8. *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 43 S. Ct. 158, 160 (1922): "The protection of private property in the Fifth Amendment presupposes that it is wanted for public use. . .".

9. *Irving Air Chute Company, Inc. v. U. S.*, 93 F. Supp 633, 87 USPQ 246 (Ct. Cl. 1950).

10. *U.S. Constitution*, Fifth Amendment.

11. *Mullane v. Central Hanover Bank & Trust*, 339 U.S. 306, 70 S. Ct. 652, 94 L. Ed. 865 (1950).

12. *United States v. Pewee Coal Co., Inc.*, 341 U.S. 114, 71 S. Ct. 670 (1951).

13. 348 U.S., 26, 75 S. Ct. 98, (1954).

However, since "police power" is frequently referred to in cases dealing with eminent domain as well as other constitutional law cases, the applicability of that power is likewise pertinent before dealing specifically with the compulsory licensing of patent questions.

The scope of "police power" as exercised under the Constitution is broader than that of eminent domain and it is universally conceded to include everything essential to the public safety, health, and morals, and to justify the destruction or abatement, by summary proceedings, of whatever may be regarded as a "public nuisance."[14] The police power extends to the United States within the field of interstate commerce.[15] As explained in the *Speert* case:

> "While the Federal government does not have the same police power as is reserved to the states, nevertheless, once a general subject is properly within the scope of the powers granted in the Constitution to the Federal government, that government has powers to prescribe police regulations concerning that subject, and these powers are as broad as those which a state government possesses concerning subjects within its reserved powers.

The plethora of court decisions dealing with the application of the police power in various situations confirms the wide experience and guidelines available in this area from the court decisions.

> *"Congress* can certainly regulate interstate commerce to the extent of forbidding and punishing the use of such commerce as an agency to promote immorality, dishonesty or the spread of any evil or harm to the people or other states from the state of origin. In doing this it is merely exercising the police power, *for the benefit of the public.*"[16]

The exercise of the police power by Congress is "for the benefit of the public." The latitude with respect to the police power is, however, judicially circumscribed so that it is used to "protect" the health, safety and morals of the community and to prevent the "spread of any evil or harm." In other words, regulation under the police power has never been so broadly construed by the Supreme Court to permit regulation purely on the basis of speculative public benefit and traditionally has extended to such items as regulation

14. *Lawton et al v. Steele*, 152 U.S. 133, 14 S. Ct. 499, (1894); *Goldblatt v. Town of Hempstead, New York*, 369 U.S. 59, 82 S. Ct. 987, (1962).

15. *Brooks v. United States*, 267 U.S. 432, 45 S. Ct. 345 (1925); *Speert et al v. Morgenthau et al*, 116 F. 2d 301 (D. C. App. 1940).

16. Supra, note 15, *Brooks v. United States.*

of liquor,[17] prostitution,[18] fertilizer works,[19] and brick yards.[20]

In the landmark case of *Pennsylvania Coal Co. v. Mahon*,[21] wherein the majority opinion was rendered by Justice Holmes in a direct confrontation with the renowned Justice Brandeis in dissent, the following statement limiting "police power" rings out with clarion sound as a warning which is applicable to the particular topic hereunder consideration, namely compulsory licensing:

> "The protection of private property in the Fifth Amendment presupposes that it is wanted for public use, but provides that it shall not be taken for such use without compensation. A similar assumption is made in the decisions upon the Fourteenth Amendment. *Hairston v. Danville & Western Ry.* 13 Ann. Cas. 1008. When this seemingly absolute protection is found to be qualified by the police power, the *natural tendency of human nature is to extend the qualification more and more until at last private property disappears.* But that cannot be accomplished in this way under the Constitution of the United States." (Emphasis added).

Constitutional Limits Re "Taking" of Patents

Patents stand on the same footing as other private property with respect to the constitutional limitations applicable to the "taking" of such property. The United States Supreme Court in the historic case of *James v. Campbell*,[22] correlated the patent property right to other property rights insofar as the constitutional protection is concerned:

> "That the government of the United States, when it grants letters patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use, without compensation, land which has been patented to a private purchaser, we have no doubt. The Constitution gives to Congress power "to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,' which could not be effected if the government had a reserved right to

17. *Mugler v. Kansas*, 123 U.S. 623, 679 (1887).
18. *L'Hote v. New Orleans*, 177 U.S. 587 (1900).
19. *Fertilizing Co. v. Hyde Park*, 97 U.S. 659 (1878).
20. *Hadacheck v. Sebastian*, 239 U.S. 394 (1915).
21. 260 U.S. 393, 43 S. Ct. 158, (1922).
22. 104 U.S. 356, 357.

publish writings[23] or to use such inventions without the consent of the owner."

Some proponents of compulsory licensing have suggested that since the patent is primarily for the "public benefit", the patentee is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible[24] and others have urged that the patentee should be required to license all comers at reasonable royalties.[25] Fortunately, for the patent system and for the American economy, the United States Supreme Court in the *Continental Paper Bag Company* case replied to that position by stating, "We dissent entirely from the thought thus urged", and Congress has likewise consistently refused to adopt a general statute for the compulsory licensing of patents.[26] Of course, some specific compulsory licensing legislation has been passed by Congress,[27] which will be discussed later in the article. Likewise, the general eminent domain statute relating to the use of patents by the government, 28 U.S.C. 1498, will be considered later.

It is submitted that although patents deal with the intangible (product of a person's mind) rather than the tangible (land, buildings, personal property), the nature of the property *right* is the same and should be governed under the law by the same considerations, and particularly the constitutional limitations with respect to the taking of property. Even though a patent is "conditioned by a public purpose,[28]" that public purpose is fulfilled by the inventor disclosing to the world his invention as his *quid pro quo* for the exclusive rights to that invention under the patent grant. The public is served by having available to it the knowledge of that invention in the disclosure of the patent itself. The contractual obligation of the government in granting the patent is that the rights to that invention shall be "exclusive" as provided for in the Constitution and anything less than that, whether it be in the original grant or in a subsequent forced compulsory licensing, falls short of the Constitutional incentive intended by the framers of the Constitution.[29] Those that urge compulsory licensing on a broader base than the constitutional limitations with respect to the "taking" of other

23. *Supra*, note 3.
24. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 1908 CD 694 February 15, 1974. 492 F2d 1317 182 USPQ 1 (2nd Cir. 1974).
25. Oppenheim, *supra*, note 4.
26. *Hartford-Empire Co. v. United States*, *supra*, note 1.
27. Atomic Energy Act, 42 U.S.C. 2183; Clean Air Act, 42 U.S.C. 1857, Sec. 308; Tennessee Valley Authority Act, 16 U.S.C. 831r.
28. *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944).
29. C. Warren, The Making of the Constitution, (Boston, 1928), pp. 625-6, 702.

property, are essentially condemning the monopoly or exclusive nature of patents with the popular appeal of "public benefit." Such an approach is obviously mere confiscation of private property which the inventor has in good faith made available to the world in exchange for such property and finds no support in any decided opinion by the U.S. Supreme Court. Even when framing anti-trust remedies for abuses of patent rights, the courts have been careful to limit the decrees so that they simply restore competition and prevent abuse, without attempting to confiscate the patents.[20]

Aside from the constitutionality of the eminent domain concept embodied in the patent eminent domain statutes,[21] it is quite surprising to find that very little has been discussed or written with respect to whether or not any other type of compulsory licensing of patents by statute is constitutional. One writer[22] who provided us with a very scholarly historical study with respect to the meaning *intended* by the word "exclusive" in Article I, section 8, clause 8, relating to the patent grant, concludes that the constitutional provision "to promote the progress of science and useful arts" was purposely made "exclusive", but he believed that was the *utmost* limit to which the framers of the Constitution were willing to go, and he expressed his opinion that less than exclusive rights in a patentee would be constitutional. However, the following quote from that Article is more convincing, and represents the prevailing view that the word "exclusive" was *intentionally* inserted in the Constitution to provide the necessary incentive to inventors:

> "In arguing that the use of the term 'exclusive right' referred to in Article I, Section 8 of the Constitution, would render a compulsory licensing system or cancellation of a patent for non-use unconstitutional, stress has been laid on the fact that in Madison's draft, submitted to the Convention on August 18th, 1787, the phrase used was "to encourage by premiums and provisions the advancement of useful knowledge and discovery', furthermore, that Charles Pinckney, on the same date, proposed 'to grant patents for useful inventions', while the phraseology as finally adopted on September 5th, 1787, by Judge Brearley's Committee on Postponed Matters, read 'by securing' for limited times to *** inventors, the 'exclusive' right to their respective *** discoveries." From this change in phraseology it has been argued by a very learned authority on patent law, Mr. Karl Fenning that:
>
> 'It is significant, therefore, that in framing the Constitution in its final form, the words "Patent" and 'Copyright" were not used, possibly lest the power be limited tc the particular forms

of conditional exclusive rights which were at that time known as "Copyrights and Patents".'

"From the 'words finally chosen for the Constitution', Mr. Fenning deduces that 'these seem to allow no limitations on the 'exclusive' right such as requirements for working or compulsory licensing.' "[33]

Perhaps it might be better to allow the constitutionality question with respect to the compulsory licensing of patents to rest strictly upon the constitutional requirement of Article I, Section 8, that the patent right must be "exclusive", but the author has the nagging belief that this is not the entire answer and would not be the only basis considered by the Supreme Court should this matter reach that level for a decisive judgment. For one thing the Supreme Court itself has authorized compulsory licensing of patents where there has been an abuse of the patent rights, such as by an anti-trust violation, beginning with the *Hartford-Empire* case.[34] Apparently, the constitutionality has been assumed by the Supreme Court and instead, the constitutionality focus has been upon the issue of whether or not the compulsory licensing should be "royalty-free" or on a reasonable royalty basis. In *United States v. National Lead Co., et al*,[35] the Supreme Court held that "on the facts before us" the issuance of a royalty-free license under the patents was not justified to effectively enforce the Anti-Trust Act. In 1952, the Supreme Court stated in *Besser Mfg. Co., et al v. United States*,[36] that "compulsory patent licensing is a well-recognized remedy where patent abuses are proved in anti-trust actions and it is required for effective relief." Presumably, the constitutional basis for such compulsory licensing by the courts must rest under the judicial power in "equity" extended in Article III, Section 2, discussed in a later section.

Further, a more in-depth view of the matter is forced upon us also by the "police power" authority available to Congress, and the extent of its applicability to, and limitations on, the compulsory licensing of patents.

30. See, for example, *United States v. National Lead Co.*, 332 U.S. 319, 67 S.Ct. 1634, 91 L. Ed. 2077 (1947); *United States v. General Electric Co.*, 115 F. Supp. 835, 843, 844 (D.C.N.J., 1953).
31. 28 U.S.C. 1498; 16 U.S.C. 831r, discussed *infra*, p. 200.
32. Schecter, "Would Compulsory Licensing of Patents Be Unconstitutional?" 22 Va. L. Rev. 287, (1936).
33. *Ibid.*, pp. 308-309.
34. Supra, note 1.
36. 343 U.S. 444, 447, 72 S. Ct. 838, 841 (1952).

Court-Imposed Compulsory Licensing of Patents

In a recent non-patent case, the scope of equity powers in shaping equity decrees and the guiding principles behind such equity powers, has been spelled out for us[37]:

> "In shaping *equity* decrees, the trial court is vested with broad discretionary power; appellate review is correspondingly narrow. Swann v. Charlotte-Mecklenburg Board of Education, 402 U.S. 1, 15, 27 n. 10, 91 S. Ct. 1267, 1275, 1281, 28 L. Ed. 2d 554 (1971). Moreover, in *constitutional* adjudication as elsewhere, equitable remedies are a special blend of what is necessary, what is fair, and what is workable. "Traditionally, equity has been characterized by a *practical flexibility* in shaping its remedies and by a facility for adjusting and reconciling public and private needs.' Brown v. Board of Education (II), 349 U.S. 294, 300, 75 S. Ct. 753, 756, 99 L.Ed. 1083 (1955). Mr. Justice Douglas, speaking for the Court, has said,
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> > 'The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it. The qualities of mercy and practicality have made equity the instrument for nice adjustment and reconciliation between the *public interest and private need* as well as between competing private claims.' Hecht Co. v. Bowles, 321 U.S. 321, 329-330, 64 S.Ct. 587, 592, 88 L. Ed. 754 (1944). (Emphasis added).
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> "See also Holmberg v. Armbrecht, 327 U.S. 392, 396, 66 S.Ct. 582, 584, 90 L.Ed. 743 (1946).
>
> "In equity as nowhere else courts eschew rigid absolutes and look to the practical realities and necessities inescapably involved in reconciling competing interests, notwithstanding those interests have constitutional roots."

Equitable remedies are likewise cognizant of the "public interest involved" and of the "public policy" of statutory provisions within their jurisdiction.[38]

A striking example of the exercise of the equity powers of the Federal court is found in the typical remedies for antitrust violations

37. *Lemon v. Kurtzman*, ..U.S..., 93 S.Ct. 1463, 1469 (1973).
38. *United States v. Morgan et al*, 307 U.S. 183, 59 S.Ct. 795 (1939).

which include the three "D's" of antitrust enforcement, divestiture, divorcement, and dissolution.[39] The statutory basis for the jurisdiction of the Federal Courts under the antitrust laws is under the various antitrust statutes such as the Sherman Act, which has a very broad delegation of power, vesting the District Courts of the United States with jurisdiction "to prevent and restrain violations of this Act." In view of such general language, the relief accorded under the Sherman Act clearly rises out of the inherent equity powers of the Federal Courts and further on the basis of regulating "interstate commerce" under the Constitution.[40]

Going back to the *Hartford-Empire* case,[41] the Supreme Court established the use of compulsory patent licensing as an equitable remedy where there had been an antitrust violation. In that case, the government sought to have the patents forfeited or cancelled because of the antitrust violations, and instead, the Court limited its punishment to the requirement for compulsory licensing "at standard royalties and without discrimination or restriction." In a sense, the *Hartford-Empire* case represents a clash of the public policy of the patent laws and the public policy of the antitrust laws. The dominant standard in both is the general public interest or welfare. Both bodies of law are aimed at the protection of the public interest in competitive technology and in competitive trade and commerce.[42] The limitations on the right of the patent-holder, such as the requirement for compulsory licensing, are reached within that broad scope of general policy of the patent laws and the antitrust law, which is capsulated in the following quotation from the *Hartford-Empire* case (pages 442-453):

> " 'The general policy has been to restrict the right of the patent-holder rigidly within the terms of his grant and, when he overreaches its boundary, to deny him the usual protections of the holder of property. That this ordinarily has been done in infringement suits or suits for cancellation does not qualify the fact or the policy. On the other hand, the anti-trust statutes have received a broad construction and corresponding enforcement, where violation has been clearly shown. When the patent holder so far overreaches his privilege as to intrude upon the rights of others and the public protected by the anti-trust legislation, and does this in such a way that he cannot further exercise the privi-

39. Malcolm A. Hoffman and Arthur I. Winard, Hoffman's Antitrust Law and Techniques, Vol. I, (1963), pp. 407-425.
40. *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 602, 71 S. S. Ct. 971 (1951).
41. *Supra*, note 1.
42. Oppenheim, *supra*, note 4.

lege without also trespassing upon the rights thus protected, either his right or the other person's, and the public right, must give way. It is wholly incongruous in such circumstances to say that the privilege of the trespasser shall be preserved and the rights of all others which he has transgressed shall continue to give way to the consequences of his wrongdoing.' "

In the *National Lead* case, cited *supra*, the Supreme Court recognized the "issue of the constitutionality" with respect to requiring a royalty free compulsory license, but specifically side-stepped the issue. The Supreme Court apparently assumed so long as "reasonable royalties" were required for payment, there was no constitutional issue. The Supreme Court did not deal with the more difficult issue, namely, whether the transfer of private property from one individual to another, can be categorized as the taking of private property for "public use." It might be argued that compulsory licensing places a product into use by the public and this makes it a "public use," but that kind of logic or reasoning could justify the requirement by the government for the transfer of any private property from one individual to another so long as the property being transferred is used or sold to the public for use. More specifically, in the field of patents, if such rationale were carried to its logical conclusion, it would mean that the "exclusive" right contemplated by the Constitution for patents would be destroyed.

In addition to the antitrust cases, wherein compulsory licensing of a patent was the remedy, the Second Circuit has recently required a compulsory license on the basis of the patent owner being a non-user.[43] In that case, the patentee was a patent attorney who "never engaged in any manufacturing or other business connected with the patent in suit." The master appointed by the District Court had applied the "willing licensor-willing licensee" test to ascertain a reasonable royalty for the compulsory license which was ordered with respect to future infringement. There was a decided difference of opinion between the patentee and the infringer as to the basis and the amount of the royalty which should be paid by the infringer, and the Second Circuit concluded that the patentee was not within his rights because the patent "is not intended as a club to be wielded by a patentee to enhance his negotiating stance." The entire premise of the Second Circuit was on the basis of the equities and they concluded that it would be inequitable to impose irreparable hardship on the infringer by injunction without any concomitant benefit to the patentee. They of course overlooked the fact that the patentee

43. *Foster v. American Machine & Foundry Co.*, (Second Circuit Case 73-1822), decided February 15, 1974.492 F2d 1317, 182 USPQ 1 (2nd Cir. 1974).

might get a much greater benefit in the form of royalties from someone else who would be licensed by the patentee. They concluded that the compulsory license was a "benefit to the patentee" and that "To grant him a compulsory royalty is to give him half a loaf. In the circumstances of his utter failure to exploit the patent on his own, *that seems fair.*"

As an aside, the *Foster* decision, in approving the compulsory licensing of the patent, relied primarily upon *Nerney v. New York, N.H. & H.R. Co.*[44]; *American Safety Device Co. v. Kurland Chemical Co.*[45]; and *Royal-McBee Corp. v. Smith-Corona Marchant, Inc.* The *Nerney* case involved a denial of an injunction which would have required the defendant to notify other infringers to refrain from sending railroad cars having the infringing brakes to the defendant's trackage. The court specifically recognized that the plaintiff might properly proceed against the other infringers, but such denial did not result in a compulsory licensing to the defendant. The *American Safety Device* case was a situation in which the patent had expired and the patentee was attempting to obtain an injunction to restrain the further use of the infringing machines made during the life of the patent. The court refused the injunction because there was a plain and adequate remedy at law since damages would suffice. The *Royal-McBee* case was a case in which compulsory licensing was ordered on the basis of "the relatively short period remaining of the life of the patent." The *Royal-McBee* court observed with respect to such award of a compulsory license:

> "We find this flexible approach towards a difficult problem of balancing equities in patent litigation most desirable, and we think the remedy was fully warranted by the facts of this case."

The "flexible approach" was also emphasized in the *Foster v. American Machine & Foundry Co.* case,[47] but it is significant that the cases relied upon by the *Foster* court did not order compulsory licensing merely because of a non-use by the patentee. Such decision raises constitutional questions as to the scope of the equity power of the courts, which is perhaps to be resolved by the United States Supreme Court if the petition for writ of certiorari is granted. Suffice it to say, that even Congress has not seen fit to pass any legislation which would require compulsory licensing of a patent merely because of non-use, and as discussed hereinafter, such power would appear to

44. 83 F. 2d 409, 410-411, 29 USPQ 456 (2nd Cir. 1936).
45. 68 F. 2d 734, 21 USPQ 30 (2nd Cir. 1934).
46. 295 F. 2d 1, 6, 130 USPQ 377 (2nd Cir. 1961).
47. *Supra*, note 43.

be beyond the constitutional authority granted to Congress. Although the equity powers of the courts are not as well-defined as the powers of Congress under the Constitution, certainly it would be inconsistent for an equity court to have the power to take private property on any broader scope than permitted under the Constitution for Congress. The Fifth Amendment limitation should certainly be applicable to the judiciary as well as to Congress, so mere non-use of a patent by a patentee should not justify compulsory licensing by either the judiciary or Congress.

Despite the undesirable result which was reached by the Second Circuit in the *Faster* case, those who would advocate more legislation with respect to compulsory licensing should agree that the *Foster* case does emphasize the fact the courts are in a position to use the "flexible approach," so long as they are within the constitutional limits. Thus, where compulsory licensing is a proper remedy, the courts are in a position to require compulsory licensing. On the other hand, if the courts exceed their constitutional authority by requiring compulsory licensing in a situation which amounts to the taking of private property for use by another, hopefully there is likewise a remedy to the patentee through the protection of the courts. Certainly, the court procedures are available for the patentee to assert his position and claim his rights if they are abused under the guise of equity powers.

The courts have also exercised their equity powers with respect to patents in other instances, such as the renowned *Activated Sludge* case,[48] which is frequently cited by advocates of compulsory licensing as a justification for more compulsory licensing. However, that case is actually an eminent domain case in which the city of Milwaukee was the governmental body acting within the scope of its obligations to protect the welfare of its citizens. It was recognized in that case that both parties had strong equities, but "there are many others who are indirectly concerned whose equities are even stronger than those of the parties." The court observed that if the injunction preventing patent infringement was made permanent, it would close the sewage plant, leaving the entire community without any means for the disposal of raw sewage other than running it into Lake Michigan, thereby polluting its waters and endangering the health and lives of that and other adjoining communities. The health and the lives of more than one-half million people were involved. Even if such *Activated Sludge* case is not recognized as an eminent domain case, it certainly must be recognized as a case in which the equity

48. *City of Milwaukee v. Activated Sludge, Inc.* 69 F. 2d 577, 21 USPQ 69 (7th Cir. 1934).

powers are properly exercised within the scope of those "police powers" normally available for the public welfare. It is believed that the *Activated Sludge* case represents a proper use of compulsory licensing when needed for equitable relief, but within the constitutional requirements. Where there has been a misuse of the patent, the courts have fashioned the remedy of refusal of relief, at least until the misuse has been discontinued.[49] Where there has been a prolonged refusal to make available a patented product or process, such as in *Vitamin Technologists v. Wisconsin Alumni Research Foundation*,[50] the courts have similarly concluded that the patent is unenforceable in the public interest. Although the *Vitamin Technologists* case was decided on the basis of the patent being invalid for other reasons, the court recognized that the question was raised as to the "public interest in restoring the health of the afflicted". The *Continental Paper Bag* case[51] was discussed with respect to the holding in that case that the suppression of the use of the patent was the right of the holder of the patent monopoly. The distinction in the case of the refusal of the patentee to license the use of his patent to protect the health of great numbers of the public, as compared to the refusal to license the patent for paper bags was recognized by the court. This type of recognition is important and is a fundamental advantage in having the courts determine when compulsory licensing should be required, rather than having statutory provisions for compulsory licensing which would attempt to cover across-the-board situations. Thus, the non-use of a patent on a paper bag is certainly a far cry from the non-use of a valuable vitamin which should have been used for its health value to the public, particularly where the showing was that the patent owner literally refused to offer such product to the public. This of course may also require a distinction between different types of drugs, which would be virtually impossible for Congress to define in terms of which ones would be subject to a compulsory license. Thus, unless the drug was one which had been suppressed for an excessive period of time without cause and such a drug was necessary to protect the health of great numbers of the public, compulsory licensing would not be justified. Again, the flexibility and the desirability of leaving the matter of compulsory licensing with the courts is evidenced by the history of the judicial process in this area.

Summarizing briefly with respect to the compulsory licensing required under the equity powers by the courts, it should first

49. See for example: *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 60 USPQ 21 (1944); *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 52 USPJ 30 (1942).
50. 146 F. 2d 941, 945 (9th Cir. 1944).
51. *Supra*, note 24.

be noted that compulsory licensing of a patent has not been required by the courts except where there has been some type of activity such as an anti-trust violation, misuse or aggravated abuse, other than in the recently decided *Foster* case[52], which is still hopefully subject to review by the Supreme Court. The ability of the courts to deal with specific situations and to develop all the necessary evidence and pertinent facts is submitted to be a safeguard which is present under the equity powers of the courts, which is, for the most part, being exercised with constitutional restraint and with the typical fairness expected in equity.

The Constitutional Limits on Congress with Respect to Compulsory Licensing

The powers vested in Congress under the Constitution appear in Article I, Section 8. One of such powers is of course the power:

> "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

Congress also has the right "to regulate commerce" which of course brings within its jurisdiction the right to pass legislation dealing with antitrust matters. As noted previously, the traditional police power is also available to Congress.

> "Congress can certainly regulate interstate commerce to the extent of forbidding and punishing the use of such commerce as an agency to promote immorality, dishonesty or the spread of any evil or harm to the people of other states from the state of origin. In doing this it is merely exercising the police power for the benefit of the public".[53]

Thus, the exercise of the police power by Congress is to be "for the benefit of the public". The latitude with respect to the police power is, however, circumscribed so that it must be used only to "protect" the health, safety and morals of the community and to prevent "the spread of any evil or harm". In other words, regulation under the police power by Congress has never been so broadly construed so as to permit regulation purely on the basis of speculative public benefit.

The United States Supreme Court recognized the limits of Con-

52. *Supra*, note 30.
53. *Brooks v. United States*, 267 U.S. 432, 45 S. Ct. 345 (1925).

gressional powers in the landmark case of *Mugler v. Kansas,*[54] when it stated:

> "Such legislation does not disturb the owner in the control or use of his property for lawful purposes, nor restrict his right to dispose of it, . . ."

Compulsory licensing necessarily does disturb the owner in the control or use of his property for lawful purposes and it does restrict his right to dispose of it, so compulsory licensing really does not fall within the scope of control or regulation contemplated by the police power, whether it be considered under the commerce clause of the Constitution[55] as described by the Supreme Court in *Brooks v. United States,* cited *supra,* or whether the "police power" is more broadly defined as in those cases dealing with the application of police power by the States. The consideration of the scope of police power as a general proposition has been thoroughly considered.[56] It must be concluded that the police powers are primarily directed towards *regulation* and when the regulation reaches the point that it is "taking" the private property, the police power no longer applies, but instead, the constitutional requirement for "public use" by or for the government applies. Since the essence of a patent right is the "exclusive" nature of the right, any diminution of such exclusive nature constitutes a "taking" from the patent owner. Therefore, since compulsory licensing necessarily constitutes a diminution of the exclusive nature of the patent right, it follows that compulsory licensing cannot be considered a mere regulation under the police power, but must be construed as a "taking".

This is not to say that within the framework of the United States Constitution, there cannot be regulations under the police power with respect to patents, and in some rare instances, even compulsory licensing, providing such action is within the framework of the Constitution and patents are treated in the same manner as other private property. The eminent domain provisions with respect to the patents found in 28 U.S.C. 1498 are consistent with the Fifth Amendment obligations permitting the taking of private property for "public use" with "just compensation". "Due process" is also provided for in such statute. The key language of 28 U.S.C. 1498 is that the use or manufacture shall be "by or for the United States", so the taking of the patent is by the government which qualifies

54. 123 U.S. 623, 668-669, 8 S. Ct. 273, 301 (1887).
55. Article 1, section 8, clause 3.
56. Sax, Takings and the Police Power, Yale Law Journal, Volume 74, pages 36-76 (1964).

for the "public use" requirement of the Fifth Amendment. 28 U.S.C. 1498 clearly provides for the "recovery of his reasonable and entire compensation" which has thus been left to the Court of Claims for determination.

A similar but essentially outdated, provision for government use is found in the Tennessee Valley Authority Act, 16 U.S.C. 831r, which provides for use by a government corporation and permits recovery of "reasonable compensation".

The conclusion must be reached that statutory provisions for compulsory licensing would be constitutional only if within the strictures of *Brooks v. United States*.[57] For that reason, mere non-use of a patent, regardless of the length of time of the non-use, would not be the proper subject for compulsory licensing, even though this has been advocated.[58] On the basis of police powers, the Atomic Energy Act compulsory licensing provisions,[59] are constitutionally justified because of the evil or harm to the people if atomic energy is not properly used and controlled.[60] The instances of a commodity such as atomic power or nuclear energy is rare enough so that such statutory provisions do not set a precedent for any general compulsory licensing statutes as some have suggested.

Certainly the ability of the courts to handle the flagrant situations which would require compulsory licensing, other than in special situations such as atomic energy, is amply demonstrated over a long period of time and supports the basic premise that legislation in this area is not only unnecessary, but undesirable. The following brief consideration of some of the recently proposed legislation dealing with compulsory licensing is believed to demonstrate the problems in attempting to handle by anticipatory legislation the exceptional and flagrant abuses which would be constitutionally subject to compulsory licensing by Congress, rather than leaving it to the courts.

Proposed Legislation Re Compulsory Licensing

Where compulsory licensing of patents is required such as under the federal Non Nuclear Energy and Research Development Act of 1974[61], as a result of research, development or other projects

57. *Supra*, note 53.
58. Oppenheim, *Supra*, note 4; *Picard v. United States*, 128 F. 2d 632 (2 Cir. 1942).
59. 42 U.S.C. 2183.
60. Interestingly enough, a recent inquiry by the author to the Atomic Energy Commission indicates that in 1969, one application for a license was made and it was withdrawn in 1971. No orders have issued for compulsory licensing under the Act.
61. H. R. 13565, (93d Cong. 2d Sess.)

which are contracted for with the Government by a private party, the constitutionality of such provisions cannot be questioned. There is of course no "taking" because the arrangement is a voluntary contractual one. Whether or not the provisions are desirable, particularly with respect to the disclosure and licensing of "background patents, trade secrets, knowhow, or proprietary information" from the standpoint of inducement for parties to enter into the contract is certainly questionable. On the other hand, Section 308 of the "Clean Air Act"[62], is submitted to be unconstitutional. It is not within the eminent domain rights of the government since the compulsory licensing is made available to *non-government* entities, and it goes beyond the police powers of Congress as outlined in the *Brooks* v. *United States* case by taking away the exclusive rights of the patent owner with an inadequate showing of a public need by the Administrator of the Act. The requirement that the "unavailability of such (patent) right may result in a substantial lessening of competition or a tendency to create monopoly" inherently exists if the patent was the only method of accomplishing the requirements set by the Administrator. Therefore, that requirement is essentially meaningless and is not a limitation, even though it is couched in the typical antitrust statutory language.

It is submitted that only if an aggravated refusal to market under the patent can be shown and such refusal results in "evil or harm to the people [63] is there any justification for compulsory licensing under the police power. Such limitation consistent with the police power is clearly lacking in Section 308 of the Clear Air Act, and therefore since no other constitutional basis would support such Act, it is the writer's conclusion that Section 308 is not constitutional.

The Hart Bill S. 2287 (93d Cong., 1st Sess.) is likewise submitted to be unconstitutional for several reasons. First, it provides that not only the patent shall be subject to a compulsory license, but "all available knowhow necessary commercially to work the best mode of working the subject matter of the patent" shall also be subject to the compulsory license. The value of "know-how" is in its secrecy and exclusiveness, or at least its control by the owner so as to limit its disclosure. A requirement that this type of information be licensed on a compulsory basis is clearly a confiscation of private property which destroys the property itself. For the same reasons as expressed above in connection with the Clean Air Act, the provisions relating to the lessening of competition are submitted to be

62. 42 U.S.C. 1857 (1967, 1973).
63. *Supra*, note 53.

meaningless. The statute purports to express a public interest to justify the compulsory licensing by directing its attention to subject matter "involving or related to public health, safety, or protection of the environment". Just because a patent happens to fall into those particular areas of public interest does not mean that the police power of Congress can be automatically exercised. There must be a showing of some evil or harm to the people with respect to the public health, safety or environment by reason of the failure to use or license the patented subject matter to justify compulsory licensing under the police power.

The further provision of the Hart Bill which provides for compulsory licensing for the non-working of the patented invention for a period of three years following the date of issue of the patent or four years following the date of application of the patent is clearly unconstitutional. There is no constitutional requirement for the use of a patent. As stated in the famous *Continental Paper Bag* case, cited *supra*:

> "His title is exclusive, and so clearly within the *constitutional* provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it."

In a more recent case, the same basic right of a patentee was recognized:

> "The restrictions in the various agreements seem only to be the exercise by a patentee of his right either to decline to practice its invention; to practice it exclusively itself; to grant a single license or exclusive licenses with or without cross-licensing (Sperry Products, Inc. v. Aluminum Co. of America, 171 F. Supp. 901 (N.D. Ohio, 1959), aff'd and mod. 285 F.2d 911, 925-926 (6 Cir. 1960) cert. den. 368 U.S. 890, 82 S. Ct 139, 7 LEd. 2d 87 (1961), or to grant non-exclusive licenses."[64]

It has been suggested by some that since the Constitution provides for the grant of exclusive rights "for limited times" that such constitutional language justifies a shorter period of time for a nonuser of his patent than for a user of his patent, but it is submitted that such thinking is not consistent with or supported by the still viable Supreme Court language from the *Continental Paper Bag* case quoted above. Further, the Constitution would not permit discrimination as to the time limits for patent rights to different inventors

64. *Blohm & Voss AG v. Prudential-Grace Lines, Inc.*, 346 F. Supp. 1116, 1137 (D.C. Md., 1972).

based upon use or non-use. To place an interpretation on the constitutional language "for limited times" so as to attempt to justify compulsory licensing on no other grounds except non-use is submitted to be in total disregard of the normal reading of such words. The absurdity of such a reading of the Constitution is illustrated by considering a hypothetical fact situation in which Mr. Smith has invented a light bulb with a carbon filament and another light bulb with a tungsten filament, both of which are patented. Mr. Smith determines that both light bulbs will work, but he can get the carbon filaments at a lower price, so he elects to make the carbon filament light bulb. The Giant Electric Corp. without any expense for research on its part on this product determines that it can make the tungsten filament bulb at a lower price than Mr. Smith can. If Smith is forced to grant a compulsory license to the Giant Electric Corp. on the tungsten filament bulb, his business could be injured or destroyed by a competitor who had no research cost to recover. Under the non-use proposal, Smith would be forced to grant the license simply because he is not using one of his patents even though he is offering a good product to the public at a price which is reasonable. Such example is not exhaustive, but is merely illustrative of the unfairness and counter-productiveness of such proposal for compulsory licensing *merely* because of non-use of a patent.

Considering now other paragraphs C, D and E of the Hart Bill, it is immediately apparent that they have no police power justification at all and are clearly unconstitutional. Paragraph C would permit a compulsory license to a party who obtained a "subsequently issued patent" which he could not use until the expiration of a prior issued patent. Paragraph D would permit a compulsory license when a person has commercially worked the patented subject matter before the actual filing date of the patent. Paragraph E permits the applicant to seek a compulsory license when the portion of a product which he is making or selling embodies the patented subject matter to the extent of 10% or only a minor part. Quite clearly, none of the foregoing requirements in paragraphs C, D, and E of the Hart Bill have anything to do with the police power of the Federal government and they cannot be justified under the Constitution.

The Nelson Bill S. 954, (83d Cong., 1st Sess.) contains compulsory licensing provisions in Sections 399d and 399e, primarily based upon the price of drugs covered by patents. The drug industry has been under attack, particularly with respect to patents on drugs, for a number of years, and there always seems to be someone suggesting the compulsory licensing of patents on drugs on the unsupported and illogical theory that this is going to make drugs less expensive

and more available to the public. The fact that is overlooked by most advocates of compulsory licensing of drug patents is that, in the absence of the incentive for a substantial return on the successful drugs that are discovered, the incentive to spend millions to invent or discover new drugs would be virtually destroyed or materially diminished. If it were not for the incentive to develop new drugs, there would have been no reason for private industry to have spent the vast sums for research to invent the many "wonder drugs" presently available to the public. Although those of us who are not directly connected with the drug industry might consider it an easy way out to suggest that the drug industry should be the one and only industry subjected to compulsory licensing, it should be remembered that if price or the profit made with respect to any product is the criteria for compulsory licensing, such criteria (to be non-discriminatory) should apply to all patented products. The distaste most businessmen would justifiably have for "Big Brother" regulating the price or profit of their patented products, would certainly cause a devastating curtailment on invention. There is no justification under the police power for broadly requiring compulsory licensing of drug patents on the basis of prices charged, if no misuse or violation occurs. Drugs can be obtained, even though high prices must be paid for some of them. For the indigent, the government can certainly provide appropriations for health purposes under public welfare, as is already done. This is an area where we clearly would be "throwing out the baby with the bath water" if compulsory licensing of drug patents is permitted. Of course, if it could be shown, as in the *Vitamin Technologists* case, that a very vital drug was not being produced by anyone and the patent owner refused to produce it, and such refusal placed persons in danger with respect to life or death, that would justify compulsory licensing and it would be constitutional under the police powers, but that of course is not the basis for the Nelson Bill or any other bills of that type.

"Comprehensive" Compulsory Licensing Statutes With "Safeguards"

The typical reasons advanced for favoring a comprehensive or general compulsory licensing statute with "safeguards"[65] has been the following:

(A) to meet the demands of those who *contend* there has been

65. APLA proposed resolution (Minneapolis Meeting, 1973), which proposal was rejected. Similar proposals have been consistently rejected by the Patent, Trademark & Copyright Section of the American Bar Association in recent years (1972, 1973).

significant suppression of patents (without any substantial proof);

(B) The compulsory licensing statutes are not used, and would not be used, to any extent, particularly when enough "safeguards" are included in the statute;

(C) Compulsory licensing is a present reality in the United States law and practice.

For those who contend that we should adopt such a general compulsory licensing statute because of the allegations of "suppression" or non-use, the answer is submitted to be very simple. The foregoing portion of this article is believed to clearly support the proposition that legislation is not necessary to prevent that type of abuse when it is sufficiently severe and is within the constitutional powers of Congress or the courts to prevent. The *Vitamins Technologists* case is an excellent example where the court stood ready to require compulsory licensing because of the public need for the invention which was being suppressed.

The recent case of *Foster v. American Foundry and Machinery Co.*,[66] although believed beyond the constitutional powers of the court in exercising its equity powers, is an indication of the willingness of the courts to test their outer limits of authority in dealing with suppression and non-use of patents when the need arises.

In answer to the argument that the compulsory licensing statutes with "safeguards" will not be used anyway to any substantial extent,[67] it is submitted such argument does not follow merely because the compulsory licensing statutes which have been in effect for specific instances, such as atomic energy, have not been widely utilized. Certainly, there is a greater temptation to seek compulsory licenses under a general compulsory licensing statute than under a specific one and although foreign compulsory license provisions have not been used extensively, they have certainly been used more than under the Atomic Energy Act. Further, if it be true that there would really be a lack of use of a general comprehensive compulsory licensing statute, what is the reason for having one? Particularly when the courts can handle any compulsory licenses which should be required for abuses of patent rights.

The fact that compulsory licensing is a present reality in a limited sense does not recommend a greater scope for compulsory licensing. At present, compulsory licensing, both in the statutes and in the

66. *Supra*, note 43.
67. A recent report from the Atomic Energy Commission reveals that there has been only one application for a license pursuant to 42 USC 2183 and that application was withdrawn before the license was issued.

court decisions is relatively limited, as it should be. The statutes are discussed above and relate to such things as eminent domain where the government is involved in the use, and those situations which are a clear abuse of patent rights. As noted previously, when the compulsory licensing statutes or the court decisions go beyond merely correcting abuses or carrying out the public policies such as expressed under the anti-trust laws, they become seriously questionable with respect to the constitutional basis. In any event, the presence of some limited compulsory licensing in the law today does not provide a stepping stone into the deep and stormy waters of general compulsory licensing with all the ramifications and disadvantages resulting therefrom.

There are many disadvantages of a general compulsory licensing statute of the type proposed by the recently defeated American Patent Law Association Resolution.[68] Reliance upon the courts to require compulsory licensing where such is within their constitutional authority is much more desirable than any general compulsory licensing statute. The courts have the "flexible approach" rather than the more rigidified approach which necessarily results in any attempt to provide a general compulsory licensing statute. The courts can deal with the problems as they arise and are in a position to obtain the evidence and the facts upon which the court renders such equitable relief. By reason of the responsible nature of most courts, the exercise of the compulsory licensing power will normally be tempered with reason and sparingly used so that it does not become commonplace and destroy the patent system. The statutory approach, on the other hand, tends to encourage compulsory licensing by making it seem accessible and authorized.

Furthermore, the mere presence of a general compulsory licensing statute would tend to promote litigation. The attitude "it's worth a try" for a party to seek the compulsory licensing could become the norm. Such legislation could provide a sword which could be used by large and small companies alike to force competitors into highly disadvantagous positions, not only by the expense of the litigation, but by being forced to license patents which would otherwise provide a competitive advantage and for which the patent owner had paid the price in the form of personal ingenuity, research, expense or royalties. No justification can be seen for thrusting such additional burden upon patent owners when the courts are fully capable of handling compulsory licensing when needed, as is believed evident from the foregoing discussion in this article.

68. *Supra*, note 65.

Conclusion

Most efforts at drafting legislation for compulsory licensing have resulted in unconstitutional legislative proposals, which fortunately have almost universally been refused by Congress. The present statutes which are constitutional, 28 USC 1498 and 42 USC 2183, are examples of the constitutional use of eminent domain and the police power. Any attempt at a general compulsory licensing statute strictly for non-use, excessive pricing or profits, or for other reasons that do not fall within the categories of eminent domain and police power are unconstitutional, and it is submitted that all of the recently proposed legislation in these categories falls within the unconstitutional area.

Furthermore, the need for statutory compulsory licensing has not been established. In cases where there are abuses, misuses or aggravated suppression, as discussed above, the courts are adequately equipped to handle the remedies in equity, within the framework and with the safeguards of the Constitution. The circumstances when compulsory licensing is the judicial remedy have been rare, and should be rare. The courts are equipped with the flexibility to handle compulsory licensing as a remedy when it is needed, and the rigidifying effects of any statutory provisions would only tend to make the task of the courts more difficult.

Compulsory licensing statutes, particularly of a general type, are especially undesirable because of the fostering of litigation to compel licensing an incipient or actual infringer and the consequent resistance to licensing by the patentee. Not only would the constitutional issues have to be resolved with respect to many statutory provisions, but the expense of each individual fact situation which is litigated would have to borne by the patentee and prospective licensee as well.

Having reached the foregoing conclusions, some may raise the now ancient, but still asserted, hue and cry that such position merely demonstrates the "negativism" of the majority of the patent bar. Such criticism is not and should not be disturbing because preventing a weakening of the patent system with the resultant weakening of the American economy by more compulsory licensing statutes transcends the criticism. Although the fight is not of recent vintage, it apparently is one which will continue because the advocates of compulsory licensing seem perennial. Steadfast opposition is necessary to defeat the destructive in-roads proposed by such proponents of compulsory licensing statutes. The importance of the needed opposition should commit us to fight.

INSTRUCTIONS

I. The applicant will fill out in full the questions set forth above.

II. Send ten dollar admission fee with the application.

III. The member endorsing the application should submit by separate letter a statement containing at least the following points:

a. Opinion as to general character of the applicant.

b. Opinion as to professional qualifications and standing of the applicant.

c. Number of years endorser has known the applicant.

d. Opinion as to applicant's past adherence to Code of Professional Responsibility of the Association.

e. Statement of present professional affiliation of applicant.

f. Any other information which will be helpful to the Board of Managers in passing on the application.

Extracts From Articles of Association

ARTICLE III

Membership

SEC. 2. The active membership shall consist of persons who are interested in the branches of the law relating to patents, trademarks, copyrights or unfair competition, whose practice in the opinion of the Board of Managers conforms to the Code of Professional Responsibility of this Association, and who * * * shall also be citizens of the United States and shall be, and have been for a period of five years or more, members, in good standing of the Bar of a court of record of the United States or any State or Territory thereof or of the District of Columbia.

SEC. 3. The junior membership shall consist of persons qualified for active membership except that they shall be, and have been, members, in good standing, of the Bar, as referred to in Section 2, for a period of less than five years from the date of their first admission. * * *. When junior members shall have completed five years membership of the Bar, in good standing, they shall be transferred automatically to active membership.

ARTICLE V

Election of Members

SECTION 1. Application for membership * * * shall be made in writing to the Board of Managers, accompanied by any prerequisite admission fee, * * *. If an application receives favorable action by the Board, the name of the applicant and his endorser shall be published to all members. In the absence, at the end of thirty days after such publication, of an objection in writing by any member, the applicant shall be considered as duly elected.

ARTICLE VI

Fees and Dues

SECTION 1. There shall be an admission fee, to be paid at the time of making application for membership, and to be refunded if the applicant is not elected, * * *.

SEC. 2. The dues payable for each year by active, junior and associate members * * * shall be fixed from time to time by the Board of Managers at such amount as it deems desirable for the best interests of the Association, * * *.

SEC. 3. The dues payable for each year shall be payable in advance on the first day of October * * *.

* * *

Effective Oct. 1, 1969

Admission Fee	$10.00
Dues, Active Members	$40.00
Dues, Junior Members	$15.00

Tear out and give to colleague to apply for membership in the American Patent Law Association.

AMERICAN PATENT LAW ASSOCIATION

2001 Jefferson Davis Highway, Suite 203

Arlington, Virginia 22202

Application for Membership

....., 19.....

1. Name .....

2. Date of Birth ..... 3. Citizen of ... .

4. Residence address .....

5. Office address .....

6. Firm or other affiliation .....

7. Bar membership (indicating jurisdiction and date of admission)

.....

.....

8. Have you ever been reprimanded by or refused admission to practice, disbarred or suspended from practice before any court or administrative agency? .....

9. Have you ever held yourself out as a patent lawyer or solicitor by way of paid advertisements? .....

10. If the answer to questions 8 or 9 is in the affirmative in any respect, give complete details on separate sheets affixed to this application.

Guidelines for Admission to Membership in the American Patent Law Association

Lawyers in Private Practice

Office Location and Admission to the Bar—A lawyer applicant may be accepted for active or junior membership in the American Patent Law Association if he (1) is a member in good standing of the bar of the court of record of any state, commonwealth, territory, or possession of the

United States, or the District of Columbia, (2) maintains a *bona fide* office for the practice of law in a jurisdiction where its maintenance is not in violation of any regulation of the profession in that jurisdiction, and (3) maintains no office for the practice of law in a jurisdiction where to do so would violate D.R. 3-101 (B).

Lawyers Not in Private Practice

1. Employed in Jurisdiction Where Admitted—A lawyer applicant may be accepted for active or junior membership in the American Patent Law Association if he (1) is a member in good standing of the bar of a court of record of any state, commonwealth, territory, or possession of the United States, or the District of Columbia, and (2) is regularly employed by another as a lawyer in a *bona fide* office maintained by that other in a jurisdiction in which the applicant is a member of the bar.

2. Employed in a Jurisdiction Where Not Admitted—A lawyer applicant may be accepted for active or junior membership in the American Patent Law Association if he (1) is a member in good standing of the bar of a court of record of any state, commonwealth, territory, or possession of the United States, or the District of Columbia and (2) is regularly employed by another as a lawyer in a *bona fide* office maintained by that other in a jurisdiction in which the applicant is not a member of the bar, so long as he advises or represents only his employer or its lawful designees in that jurisdiction and no regulation of the profession in that jurisdiction forbids him to so advise or represent without being a member of the bar in that jurisdiction.

CERTIFICATE

I have read and do understand the GUIDELINES FOR ADMISSION TO MEMBERSHIP IN THE AMERICAN PATENT LAW ASSOCIATION and I hereby certify that I am not engaged in the practice of law in violation of any applicable regulation of the legal profession or in violation of the Code of Professional Responsibility.

.....

Applicant

ENDORSEMENT

I hereby state that, to the best of my knowledge and belief, the above named applicant is qualified for membership in the Association and I recommend him for membership. A separate statement concerning his character, professional standing and qualifications is presented with this application.

.....

Member, American Patent Law Association